

Chain Store Age **EXECUTIVE**

with Shopping Center Age
The newsmagazine for retail operations

1985 Big Builders
ICSC DEALMAKING

**Retailers to
customers:
eat your
hearts out!**

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TWENTY DOLLARS A YEAR (USA)

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Diversification a prime factor in chart positions

This year's figures indicate an growing interest in acquisitions, accounting for a major portion of added space

Because acquisition has become almost as much a growth factor as new construction, Ames Department Stores has become the No. 1 Big Builder of 1985 in additional gross square footage.

By pursuing such a strategy, Ames Department Stores will add more gross square footage by year-end than any other chain in America, boosting its retail space by a whopping 12,669,711 sq. ft. However, almost all of this increase isn't due to new building, but rather to the chain's purchase of G. C. Murphy earlier this year. The purchase, which more than doubles the size of the Ames retail operations, consisted of 118 discount department stores and 263 smaller retail units.

Without the acquisition, Ames would have added only 1,035,711 sq. ft. (still keeping it in the top 25) through the addition of 18 new units.

Service Merchandise is another chain which, through acquisitions, has moved quickly up the ranks of big builders. Last year, in terms of gross square footage added, it held the No. 22 spot, with 855,000 sq. ft. This year

it has moved all the way up to No. 4 within the ranks of big builders, with an addition to gross square footage of 7,274,000 sq. ft.

However, of this number, 5,049,300 gross square feet came from Service Merchandise's purchases earlier this year of two catalog showroom chains. These were the nine-unit Ellman's and the 80-unit H. J. Wilson chains.

Without these two acquisitions, Service's catalog showroom growth for this current year would be confined to the addition of 21 new units, totaling 860,400 sq. ft.

In addition, all of the company's nonshowroom growth this year is coming from its Mr. HOW Warehouse home center chain. That division will have added 18 new units before year-end, for a total of 1,364,000 sq. ft. of new space. (Mr. HOW also represents a 1983 acquisition made by the company, when it acquired the first two units in this chain.)

The situation is somewhat similar for K mart which not only made a major acquisition of its own this year but which is also investing heavily in the

diversification of its basic business (a trend seen throughout retailing). Earlier this year K mart acquired Pay Less Drug Stores Northwest, resulting in an addition to gross square footage of an estimated 3,690,000 sq. ft. (through the purchase of 164 existing units), plus an additional 675,000 sq. ft. for 30 new units scheduled to be opened before year-end.

In all by the end of this calendar year, K mart expects to add

10,016,000 gross sq. ft. Of this number, only approximately 1.6 million sq. ft. are resulting from the construction of new K mart discount units, with 20 on tap this year.

Instead, in addition to plans for Pay Less, the balance is coming from the expansion of Builders Square (acquired last year) and, to a considerably lesser extent, the expansion of Waldenbooks and Designer Depot.

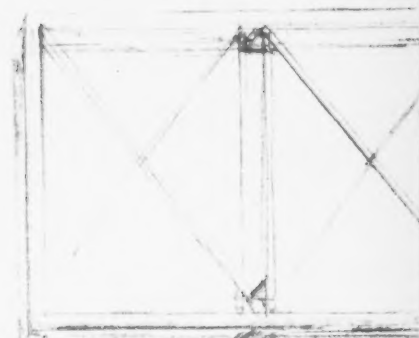
However, at the same time K mart is investing an extremely hefty \$1.1 billion in such capital expenditures (making it No. 1 among the Big Builders in capital expenditures).

K mart's commitment illustrates the willingness of such corporations to not only make major acquisitions but also to invest in upping their worth further. For example, it is reported that as much as \$500 million of K mart's 1985 capital expenditures budget is being devoted to improving the worth of its more recent acquisitions. This is in keeping with the company's basic diversification strategy.

Diversification is also playing a role at Wal-Mart this year. While the bulk of the 9.4 million gross square feet being added by this company is being devoted to the Wal-Mart discount stores, the chain is also undertaking significant expansion of its Sam's Wholesale Clubs. This chain is more than doubling its size this year, up to 23 units by year-end.

At the same time, Wal-Mart will have added approximately 115 discount stores to its ranks by year-end. Here, though, in addition to its traditional market areas, Wal-Mart is experimenting with smaller prototype stores of 29,000 sq. ft. for even smaller markets than the chain's traditional locations. (At the same time, Wal-Mart is building its usual 55,000 sq. ft. stores in larger urban markets.)

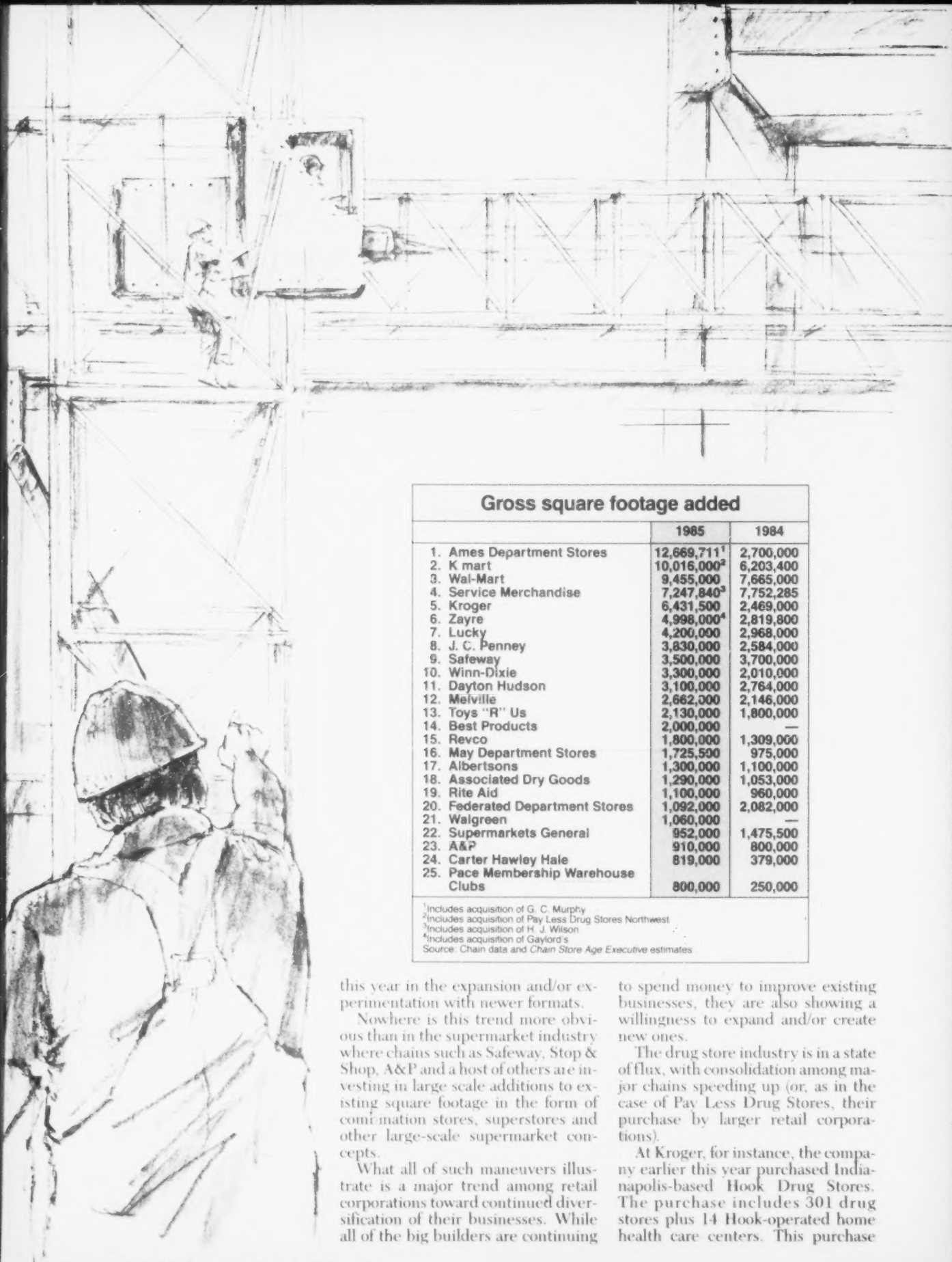
Wal-Mart, with a total capital expenditures budget this year of \$225 million (excluding leased properties), is typical of a number of retail corporations who are also investing heavily



Capital expenditures

	1985 (000)	1984 (000)
1. K mart	\$1,100,000	\$740,000
2. Safeway	653,000	702,000
3. J. C. Penney	515,000	505,000
4. Sears, Roebuck	512,000	537,000
5. Dayton Hudson	460,000	385,000
6. May Department Stores	360,000	225,000
7. Kroger	307,000	310,000
8. Lucky Stores	250,000	188,000
9. American Stores	230,000	308,000
10. Wal-Mart	225,000	213,000
11. The Limited	195,000	118,000
12. Toys "R" Us	200,000	178,000
13. Federated Department Stores	163,000	103,000
14. A&P	163,000	113,000
15. Winn-Dixie	161,000	180,000
16. Albertsons	150,000	150,000
17. Zayre	150,000	98,000
18. Supermarkets General	150,000	110,000
19. Stop & Shop	140,000	108,000
20. Circle K	140,000	91,000
21. Carter Hawley Hale	135,000	107,000
22. Associated Dry Goods	110,000	104,000
23. Melville	103,000	93,000
24. Service Merchandise	100,000	70,000
25. Allied Stores	100,000	91,000

Source: Chain data and Chain Store Age Executive estimates



Gross square footage added

	1985	1984
1. Ames Department Stores	12,669,711 ¹	2,700,000
2. K mart	10,016,000 ²	6,203,400
3. Wal-Mart	9,455,000	7,665,000
4. Service Merchandise	7,247,840 ³	7,752,285
5. Kroger	6,431,500	2,469,000
6. Zayre	4,998,000 ⁴	2,819,800
7. Lucky	4,200,000	2,968,000
8. J. C. Penney	3,830,000	2,584,000
9. Safeway	3,500,000	3,700,000
10. Winn-Dixie	3,300,000	2,010,000
11. Dayton Hudson	3,100,000	2,764,000
12. Melville	2,662,000	2,146,000
13. Toys "R" Us	2,130,000	1,800,000
14. Best Products	2,000,000	—
15. Revco	1,800,000	1,309,000
16. May Department Stores	1,725,500	975,000
17. Albertsons	1,300,000	1,100,000
18. Associated Dry Goods	1,290,000	1,053,000
19. Rite Aid	1,100,000	960,000
20. Federated Department Stores	1,092,000	2,082,000
21. Walgreen	1,060,000	—
22. Supermarkets General	952,000	1,475,500
23. A&P	910,000	800,000
24. Carter Hawley Hale	819,000	379,000
25. Pace Membership Warehouse Clubs	800,000	250,000

¹Includes acquisition of G. C. Murphy

²Includes acquisition of Pay Less Drug Stores Northwest

³Includes acquisition of H. J. Wilson

⁴Includes acquisition of Gaylord's

Source: Chain data and Chain Store Age Executive estimates

this year in the expansion and/or experimentation with newer formats.

Nowhere is this trend more obvious than in the supermarket industry where chains such as Safeway, Stop & Shop, A&P and a host of others are investing in large scale additions to existing square footage in the form of combination stores, superstores and other large-scale supermarket concepts.

What all of such maneuvers illustrate is a major trend among retail corporations toward continued diversification of their businesses. While all of the big builders are continuing

to spend money to improve existing businesses, they are also showing a willingness to expand and/or create new ones.

The drug store industry is in a state of flux, with consolidation among major chains speeding up (or, as in the case of Pay Less Drug Stores, their purchase by larger retail corporations).

At Kroger, for instance, the company earlier this year purchased Indianapolis-based Hook Drug Stores. The purchase includes 301 drug stores plus 14 Hook-operated home health care centers. This purchase



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BIG BUILDERS

complements Kroger's increased commitment to the drug business also witnessed by its investment in SuperRx Drug Stores where it expects to have added 24 new units before year-end.

Meanwhile, in the department store area, the major players are once again this year making hefty capital investments. However, in an acceleration of a trend already seen over the past several years, they are spending much of this money for expansion of specialty businesses, along with limited further growth in their department store bases.

For example, at Federated Department Stores, which is adding 1,092,000 gross square feet this year, a large percentage of this is in the form of the expansion of its specialty store divisions. (The company's capital expenditures budget rose however, from \$103 million in 1984 to \$163 million in the current year.)

Meanwhile, Associated Dry Goods, with a capital expenditures budget of \$110 million, is investing heavily in its nondepartment store divisions. It has plans afoot to have 14 new Loehmann's units opened before year-end, along with six new Caldors.

Obviously, though, the company that has moved most aggressively away from its original positioning in the department store field is Dayton Hudson (although this year it did open its first new department store in several years, in Bismarck, N.D.).

With an addition of 3.1 million sq. ft. planned for this year, it is aggressively expanding both its Target and Mervyn's divisions, opening 13 and 21 new units, respectively.

By year-end Dayton Hudson also plans to have opened a total of 60 Pickwick and B. Dalton stores, four R.G. Branden's units, and two Lechmeres.

While such corporations are diversifying away from the department store arena, J. C. Penney is still determined to be recognized nationally as a department store chain. In fact, this year the company has committed \$515 million to be used for the continuing renovation of its existing units as well the construction of new units.

Details of its 1985 capital expenditures program, which will result in the addition of 3.8 million gross square feet, include: 15 new full-line department stores, 35 smaller department stores, 20 drug units and 60 freestanding catalog operations.

At the same time, the company is continuing to close many of its unprofitable or borderline units.

(continued on page 35)

New formats adding to growth



K mart's Kitchen Korner offers brand name appliances and fashion-oriented housewares.

K mart's impressive expansion figures this year are a reflection of the speed with which the company is pursuing its diversification plans.

Of the 10-million-plus sq. ft. that K mart is adding, only approximately 1.6 million sq. ft. will be from the construction of 20 new K mart discount units. The majority of the balance is coming from the expansion of Builders Square and the acquisition of Pay Less Drug Stores Northwest, and to a lesser extent, the expansion of Waldenbooks and Designer Depot.

K mart has slowed its new store expansion in recent years and instead has opted to upgrade existing units to the "K mart of the 80's" format. The remodeling and refurbishing program includes the introduction of specialty departments carrying a broadened assortment of brand name merchandise in various categories.

In addition to upgrading the apparel merchandise selection and presentation, the chain is also installing four other new departments: the Home Electronics Center, selling audio and video products, home computers and peripheral equipment, software and entertainment game cartridges; the Kitchen Korner, offering brand name fashion-oriented housewares; the Domestic Center, featuring high-fashion soft goods for the home; and the Home Care Center, offering do-it-yourself home improvement items.

K mart's emphasis on the DIY market has been evident in its stores for the past several years. It had already begun to penetrate this growing market by offering expanded selections within existing stores when it acquired the nine-unit Builders Square chain (formerly Home Centers of

stores, to close the year with a total of 15 units. The company apparently sees great potential for the warehouse-style home improvement chain, and is adding another 35 units this year, up from its original plan to increase the chain by 20.

K mart expects to usher out the decade with over 100 Builders Square stores, each ranging in size from 80,000 to 100,000 sq. ft., doing a total of \$1 billion in sales.

Early this year, K mart moved further into its retail-oriented diversification plans with the purchase of Pay Less Drug Stores Northwest for \$500 million.

Headquartered in Wilsonville, Ore., the Pay Less chain at the time of the acquisition consisted of 164 stores, averaging 22,500 sq. ft. each. During the course of 1985, K mart intends to add 30 more units.

Waldenbooks, a 1984 acquisition, is upping its numbers by 70 units this year, and plans call for it to increase by that same number each year. Waldenbooks is expected to pull in \$1 billion annually by the end of the decade.

An offshoot of Waldenbooks, however, the Reader's Market, is not enjoying the growth of its mother chain. Five of these discount book operations were opened in New York and Connecticut last year, and the company had originally intended to add 25 to 30 this year. The plans have been put on hold, however, according to a source within the subsidiary.

K mart is also pulling back a bit from last year's expansion of its Designer Depot operations. The chain ended 1984 with 52 units after the addition of 22 new stores. This year the off-price apparel chain will increase its numbers by 15.

K mart		
	1985	1984
Stores in operation at end of calendar year	3,681 ¹	3,365 ¹
Total stores added in calendar year	316 ²	941 ³
Gross square footage added in calendar year	10,016,000	6,203,400
No. of stores closed	N/A	38
Total capital expenditures	\$740 mil.	\$1.1 bil.

¹Excludes Furr's and Bishop Buffets cafeterias, includes Canadian operations

²Includes acquisition of Pay Less Drug Stores Northwest

³Includes acquisition of Waldenbooks

Source: Chain data and Chain Store Age Executive estimates

America) late last year.

Following the acquisition, the chain immediately opened six more

BIG BUILDERS A&P

Supermarketer adds formats

Having moved far away from its image as a sleepy giant supermarket chain, A&P this year is continuing to build a reputation as an innovator in store formats.

Last year the chain garnered industry kudos for its conversion of three existing conventional stores to its extremely innovative Futurestore format. Based on the positive response, A&P is continuing to expand the concept into other market areas this year.

However, the company is also well aware that the same format doesn't work equally well in all market areas and is therefore innovating through other design concepts.

This year the most prominent example thus far is the first A&P Sav-A-Center in Melville, Long Island, N.Y., which was unveiled in March of this year.

While this concept is similar to A&P superstores in terms of its high



New concepts feature the versatility of a superstore and the price emphasis of a warehouse store.

level of service with an emphasis on perishables, the stores are more sharply promotional. They combine many of the features of the superstore, such as versatility and flexibility, with the strong price emphasis of a warehouse store.

However, unlike the "bare bones" design approach used by the typical warehouse operation, among the design elements in the Sav-A-Center are full-color photo-murals on the perimeter walls. The store has a large delicatessen, including a deli-to-go section, a salad bar, a cheese island and a juice bar. Such sections are rounded out by an extensive bakery department with a self-service section.

A number of Sav-A-Centers are scheduled to be opened in the Metro New York Area and in other A&P territories during this year, including a recently opened unit in Baltimore. It is expected that this approach to store

format "will occupy an important niche in our marketing plans, establishing a strong economy image in selected locales with little sacrifice in variety or service," according to A&P's most recent annual report.

Before the current fiscal year ends, A&P is expected to open approximately 24 new stores (not including the 92 Dominion stores in Canada that the chain acquired in March 1985). Nor does it include its aggressive store remodeling program. In total, A&P is investing \$130 million this year in capital expenditures.

In addition to the Futurestores and the Sav-A-Centers, the third tier of A&P's marketing philosophy and strategy remains the conventional supermarkets. While the company clearly sees larger stores as being on the leading edge of new development, company officials recognize that these superstores are not appropriate for some neighborhoods. In

A&P		
	1985	1984
Stores in operation at end of calendar year	1,097	1,001
Total stores added in calendar year	24	122*
Gross square footage added in calendar year	960,000	3,110,000
No. of stores closed	N/A	35
Total capital expenditures	\$130 mil.	\$113 mil.

*Includes acquisition by A&P's Canadian division of 92 Dominion food stores.
Source: Chain data and Chain Store Age Executive estimates

these areas, A&P intends to keep the store size small and sharpen the merchandising approach.

As the company says in its annual report, "In many locations, superstores cannot be implemented for various reasons—lack of market density in rural areas and high real estate costs in urban centers are two examples." Therefore, "In those A&P locations that are not suited for significant expansion, yet have convenient locations and a strong neighborhood franchise, we intend to sharpen our merchandising approach to maintain customer loyalty."

However, for the most part, the company's investment program will continue to be geared to the development of larger stores, not only throughout the U.S. A&P network, but also in the chain's Super Fresh, Family Mart and Kohl's subsidiaries. While these will not necessarily feature the same design elements utilized in the Futurestore, they will include the same emphasis on merchandise variety, special service departments, top quality meats and produce, combined with competitive pricing. ■

BIG BUILDERS/DAYTON HUDSON

Mervyn's, Target set fast pace

Much attention the past two years has been focused on the financial success of Mervyn's, the Hayward, Calif., promotional department store chain owned by Dayton Hudson Corp.

Paralleling that success has been the growth of that division both on the West Coast and in its year-old South Central territory. The chain's rapid expansion this current year helps put Dayton Hudson on *Chain Store Age Executive's* list of 1985 Big Builders with square footage figures that are at least two times higher than most of its

retailing peers.

Dayton Hudson's physical growth during the course of this year consists of the addition of more than 3 million sq. ft. of new store space. Most of that expansion comes from the opening of 21 Mervyn's units which generally measure in the 80,000-sq.-ft. range. Of those 21 units, 13 have opened or will open in the South Central territory by year-end, including stores in the new markets of New Orleans, San Antonio and Fort Worth.

Over the next five years, Mervyn's will be adding 140 stores with the aid

of approximately one-half of Dayton Hudson's total capital investment allocations. While stores will continue to be added in southern California, entries into new markets are planned for the Pacific Northwest and the Sunbelt.

Mervyn's expansion last year was also considerable. Seventeen new stores were added, nine of those in the South Central territory (eight in Houston, one in Dallas), bringing that region's total number of stores to 19 at the end of 1984.

Dayton Hudson's other bright spot is its Target discount division. Thirteen new stores are scheduled to open before this year is over, including five additional units in Los Ange-



Dayton Hudson will open 13 of its successful Target units before the end of this year.

les, bringing the total there to 26.

Three other stores also are opening in markets where Target already has a presence; the balance are single-store entries into new, smaller markets like St. Cloud, Minn., for example.

Target's five-year plan calls for the addition of at least 70 new units. Target and Mervyn's combined will receive about 80% of the corporation's total investment.

Following last year's consolidation of Dayton's and Hudson's into the Dayton Hudson Department Store Co., the chain is now positioned for

Dayton Hudson		
	1985	1984
Stores in operation at end of calendar year	1,220	1,136
Total stores added in calendar year	99	71
Gross square footage added in calendar year	3,100,000	2,764,000
No. of stores closed	15	28 ¹
Total capital expenditures	\$460 mil.	\$357.8 mil.

¹Includes divestiture of Diamond's and John A. Brown. Source: Chain data and Chain Store Age Executive estimates

growth in the long term. This past summer the chain added one unit, an 80,000-sq.-ft. Dayton's store in Bismark, N.D., the first new department store in a number of years.

Dayton Hudson's specialty store group, consisting of Lechmere, B. Dalton and Pickwick Discount Books, also is enjoying growth with the addition of approximately 60 new units before year-end.

In particular, Dayton Hudson has been paying increased attention to Lechmere, the New England hard goods retailer. After several years of mixed financial results, Lechmere appears to have found a winning formula. Consequently, the parent corporation is providing it with more financial support. While Lechmere opened two units both last year and this current fiscal year, next year's plans call for the opening of seven units, including four in Atlanta, the first expansion of the chain outside of its traditional New England trade area.

Pickwick, B. Dalton's discount book store format, began an ambitious expansion program last year when it added 18 units. (Separate store addition figures for Pickwick, B. Dalton and B. Dalton's new software store concept were not available at presstime; in total they account for approximately 58 new units this year.) ■

BIG BUILDERS/LUCKY

Keeping on a steady course



Gemco integrated store prototypes opened March 16 in Encinitas and Rowland Heights, Calif.

Continuing on a course of substantial growth, Lucky's capital expenditure program of \$250 million to be invested during fiscal year 1986 (ending February 1986) will provide for 211 new units, bringing their total for the year to 1,541.

These new additions will add approximately 4.2 million sq. ft. to the

existing square footage. The chain has planned 65 closings for the fiscal year compared with last year's store closings of 392, which included the selling off of the Pic-A-Dilly/It's-a-Dilly off-price apparel division consisting of 240 stores. The company's automotive division also sold a group of 77 stores.

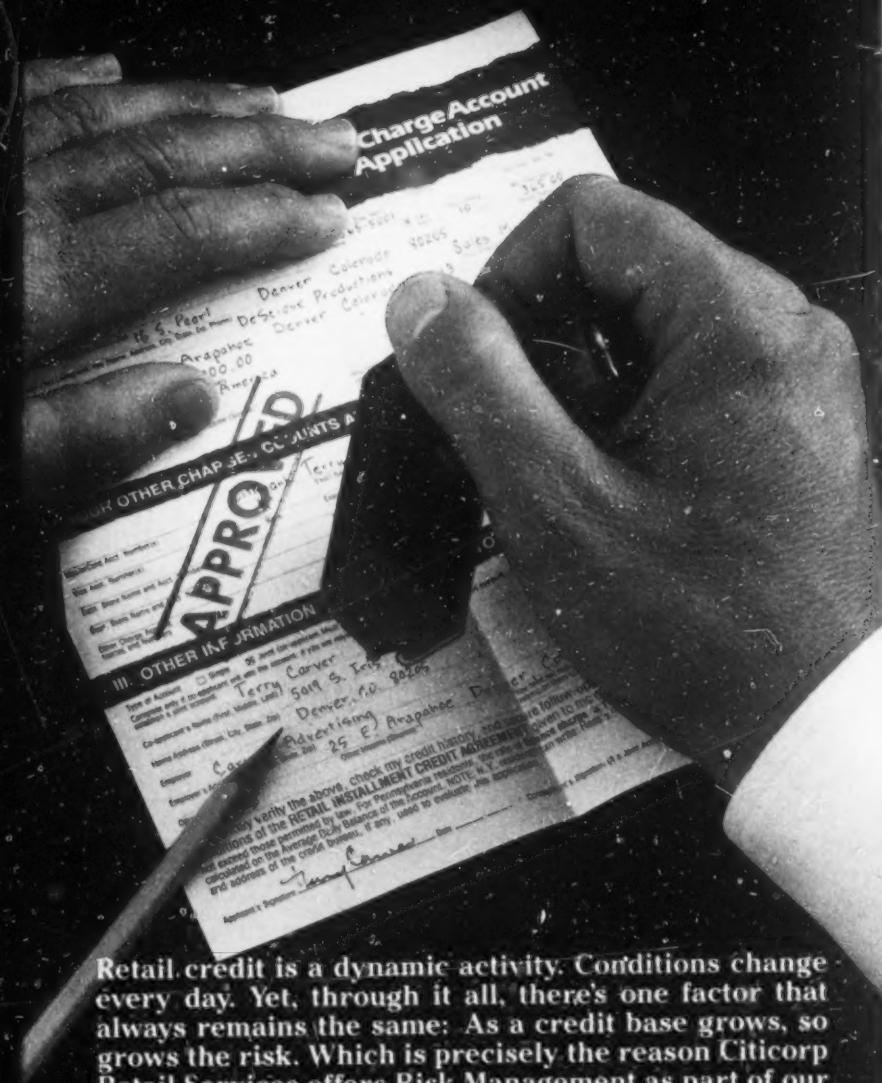
In contrast, of the closings planned for 1986, 22 are food stores, one is a specialty store, 22 are automotive stores and 10 are fabric stores.

Related to new capital investments, specifically, the company has said that its goal is to open 100 new stores each year. Its five-year plan calls for capital expenditures over that period to total \$1 billion. Much of this money will be spent for enhanced information and productivity systems, along with major remodels of existing units.

Following a market research study indicating that delis and bakeries are becoming important to supermarket shoppers, Lucky's management plans to invest heavily in adding these service departments to their existing stores. It expects to finish 1986 with 278 delicatessens and 201 bakeries. This will be more than a threefold increase compared to last year.

In addition to the corporation's food store operations, an important area of development is the Gemco discount store division. In March 1985, Lucky opened two Gemco prototype stores—one in Rowland

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Lucky

	1985	1984
Stores in operation at end of calendar year	1,541	1,477
Total stores added in calendar year	211	158*
Gross square footage added in calendar year	4,161,900	2,968,300
No. of stores closed	65	392**
Total capital expenditures	\$256 mil.	\$188.5 mil.

*Includes the acquisition of 58 food stores

**Includes the sale of 240 Pic-A-Dilly and It's-A-Dilly stores to The Limited

Source: Chain data and Chain Store Age Executive estimates

Heights, Calif., and the second in Encinitas, Calif.

According to a company spokesman, Gemco's basic store format had not changed in 25 years. Management realized that it was time to rethink how the stores could better fulfill consumer wants.

Although these new stores have a different layout from the existing Gemcos, including a single bank of checkout stands located for the first time in the front of the store, they are basically the same size as the older units (100,000 sq. ft.). The only major difference is that the prototype's backroom storage facility is smaller, allowing for more store selling space.

In keeping with the overall Gemco strategy, the new prototypes offer five major departments: apparel, hard goods, sporting goods, toys and garden needs.

The supermarket area is the focal point of the new Gemco prototypes with space in this area having been increased 25% from the older Gemco stores. The supermarket area includes a large produce department, a full service delicatessen and bakery, and an adjacent pharmacy.

In addition, the prototype stores along with four Gemco Phoenix stores, are testing a single bank of checkouts located in the front of each store. This arrangement enables Gemco member customers to take care of both food and general merchandise purchases through a single transaction.

In the specialty store area, Lucky's Yellow Front Stores are being remodeled to update their appearance and provide for more effective merchandise presentation. This remodeling includes a new loop traffic pattern providing for better utilization of store space.

Remodeling also continues to take place among the chain's fabric and automotive stores.

A company spokesman says Lucky's expansion program will be primarily in existing trade areas with no new geographic areas planned for 1986.

Leader in new construction



During fiscal 1985, Wal-Mart built 106 new stores, bringing the chain's total units to 745.

Although Wal-Mart takes the No. 3 position on the 1985 Big Builders gross square footage list, it is far outpacing the rest of the retail industry when it comes to the construction of new store space.

Unlike Ames Department Stores and K mart, Nos. 1 and 2 respectively, Wal-Mart's square footage additions come from actually building new stores, not acquisitions. Specifically, the company is going full-speed ahead with an ambitious construction program that features new discount stores, including a smaller store format, along with its new membership warehouse clubs.

During fiscal 1986, ending Jan. 31, 1986, the corporation expects to add a total of 9.4 million sq. ft. of space, up from last year's already impressive 7.5 million sq. ft. To allow for such great expansion, the company has developed an extremely flexible real estate policy. During the past few years the company built all of its own stores but this year it has begun leasing them from other developers.

While additional Wal-Mart discount stores will account for the bulk of this growth, Sam's Wholesale Clubs are also rapidly expanding. The company's entry into the membership warehouse club arena will more than double its size before the end of this year, bringing the total number of units to 23.

The construction of Wal-Mart discount units is proceeding at a rate of more than 100 stores per year. Last year, during fiscal 1985 (ended Jan. 31, 1985), 106 stores were constructed, bringing the total number of units for the chain to 745. Only three units shut their doors.

Before the close of this year, Wal-

Mart will be adding approximately 115 discount stores to its ranks, with only one unit slated for closing.

According to a source within the company, Wal-Mart is maintaining its strategy of constructing stores in small "home town, family markets" with populations of under 200,000. These markets, she reports, usually run about 40,000 on average.

Smaller prototype stores of approximately 29,000 sq. ft. (vs. 55,000 sq. ft. for traditional Wal-Mart stores) are being tested in even smaller markets like Sayer, Mo., for example.

In contrast, traditional Wal-Mart stores are going up in larger urban markets like Houston and Memphis. The competition is, in many cases, the same as in smaller markets, the source says, so there haven't been too many surprises.

Sam's Wholesale Club started out

Wal-Mart		
	1985	1984
Stores in operation at end of calendar year	887	758
Total stores added in calendar year	130	115
Gross square footage added in calendar year	9,455,000	7,665,000
No. of stores closed	1	3
Total capital expenditures	\$225 mil.	\$213.2 mil.

Source: Chain data and Chain Store Age Executive estimates

fiscal 1985 with three existing stores, one each in Oklahoma City, Dallas and Kansas City. During fiscal 1985 it upped that number to 11 with the addition of eight units: three in Houston, and one each in Birmingham, Ala.; Charleston, S.C.; St. Louis; Jacksonville, Fla.; and Dallas.

This year a dozen more Sams have been or will be constructed. At press-time, Wal-Mart had added wholesale clubs in Wichita, Little Rock, Tulsa, Memphis, Nashville, Knoxville and San Antonio. Five more were scheduled for construction before the end of the current fiscal year.

Sam's Wholesale Club isn't Wal-Mart's only example of diversification. During fiscal 1984, for example, it opened its first Dot discount drug store in Des Moines. A second unit has been added this year in Kansas City.

In addition, during fiscal 1985, Wal-Mart opened its first Helen's Arts and Crafts Store. So far this year a second unit has been opened in Monroe, La., and another is expected to open before year-end in Fort Smith, Ark. ■

BIG BUILDERS/REVCO

Celebrating with 2,000th store

Revco will celebrate its 30th birthday during fiscal year 1986 and as part of the celebration, plans are under way for the opening of the drug chain's 2,000th store.

The chain is, in fact, following an aggressive expansion program throughout its current fiscal year which ends June 1986. By that time, the drug store industry powerhouse will have approximately 2,041 stores.

Working with a capital expenditure budget of approximately \$90 million,

these additional units include 140 new drug stores and three units of Get It For Less, the chain's deep discount store venture.

The chain also contributed to the merger fever in the drug store industry with its acquisition of Carl's Drug Stores at the beginning of the chain's current fiscal year. Part of the strategy behind the purchase of these 42 units was to provide Revco with a geographic foothold in New York.

This purchase also provides Revco

with an entry into the New England market with stores in New Hampshire and Vermont.

The acquired stores and the expansion of existing units will add an estimated 1.9 million sq. ft., compared with last year's 1.4 million sq. ft. of additional store space.

Revco's drug store division will continue its expansion program with the remodeling and relocation of a significant portion of its units. A total of 255 such projects are planned for 1986, compared with 277 such pro-

Revco		
	1985	1984
Stores in operation at end of calendar year	2,041	1,898
Total stores added in calendar year	185*	154
Gross square footage added in calendar year	1,805,000	1,309,000
No. of stores closed	N/A	34
Total capital expenditures	\$90 mil.	\$90 mil.

*Includes acquisition of 42 Carl's Drug Stores.
Source: Chain data and Chain Store Age Executive estimates

jects during fiscal 1985.

The company is also investing heavily in stand-alone pharmacy computer system, developed by Revco's General Computer Corporation subsidiary. Revco's plans call for eventually equip the entire chain with these systems. These enable Revco to process most third party claims electronically, and provide a direct communications link with Revco headquarters.

With the deep discount format catching on, Revco's Get It For Less division has been doing well since it opened in 1983, according to the company. The deep discount stores offer more than twice the selling space of the typical drug store and are capable of generating considerably higher annual volume.

Revco's management is currently investigating new areas for the deep discount units where there are no existing Revco drug stores.

Following very troubled times, the expansion of the company's Odd Lot division is on hold. It consists of a wholesale division—Tangible Industries—which buys close-out merchandise for retailers and a retail division consisting of 152 stores. During fiscal year 1985, the Tangible Industries division was showing a drop in sales by 49% compared with the previous year. With a new management team overseeing its operation, Revco officials believe the division will make a comeback. Until they re-evaluate the situation, however, there will be no expansion during fiscal 1986. ■

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Strategy of varied formats



Kroger believes that combo stores deserve an increasingly larger portion of the capital budget.

Having recovered from several years of ailing financial results produced by a combination of a poor retail environment and disputes with its local unions, Kroger is now investing \$300 million in its 1985 capital expenditures program. That figure is down only slightly from the \$310 million invested in 1984.

A significant portion of the 1985 investment is going toward the expansion and remodeling of existing store units. Last year the company remodeled 90 such units; this year it is remodeling 146 stores.

However, the company will also be opening 48 new supermarket units, compared with 46 new stores opened in 1984.

Many of Kroger's new and remodeled supermarkets will be combination food/drug stores, which average approximately 47,000 sq. ft. in size. This also reflects a general industry trend toward the expansion of the combo store format.

Specifically, Kroger believes that because of their size, variety of products that can be made available and emphasis on store service, combination stores can generate considerably higher sales and profits than other store formats. As a result, they are taking an increasingly larger portion of the company's capital budget.

At the same time, recognizing that not all areas are suitable sites for this format, the company is continuing to develop stores of differing sizes and of various formats in an attempt to meet the specific needs of a particular trade area. This, too, is indicative of indus-

Kroger*		
	1985	1984
Stores in operation at end of calendar year	2,876	2,379
Total stores added in calendar year	604*	171
Gross square footage added in calendar year	5,820,470	N/A
No. of stores closed	N/A	178
Total capital expenditures	\$300 mil.	\$310 mil.

*Includes the acquisition of 315 Hook drug stores, 169 Turkey Hill convenience stores and 4 Price Savers.
Source: Chain data and Chain Store Age Executive estimates.

try wide trends.

Keeping with this strategy, the company has also become more flexible in its approach not only to store design, but also to merchandise selection and promotional activity. This policy permits the company to be more responsive to consumer needs in the various markets which it serves.

Corporate advertising, including the "Feel the Difference" campaign, is helping to get Kroger's message of "convenience, value and service" out to its customers.

At the same time, recognizing that the 443 convenience stores operated by the company's Dillon division represent a fast-growing segment of food retailing, the corporation will be opening 43 convenience stores before year-end. Forty-six of these units are slated for remodeling. Convenience stores under the Time Saver name are located in New Orleans; Quik

Stop Markets are in northern California; Kwik Shop operates in Kansas, Nebraska and Iowa.

This year Kroger also acquired 169 Turkey Hill convenience stores.

Along with its drug store involvement through the combination stores, Kroger is, of course, also heavily involved in that particular industry through its drug store divisions.

In this area, plans call for SuperX Drug Stores to open 24 new facilities this year and to remodel approximately the same number of existing facilities. This will bring the chain-store total to approximately 642 by year-end.

In fact, this year the drug store industry has emerged as a major area of growth for Kroger. Earlier in the year, the company purchased Hook Drugs of Indianapolis. The chain operates 301 drug stores and 14 home health care facilities in Indiana, Illinois, Ohio and Kentucky.

Industry observers believe that Kroger will benefit from Hook's sound understanding of drug store operations.

In addition, the chain has the geographical domination on the edge of the company's SuperX territory which can enhance Kroger's overall drug store operations.

Looking for other expansion opportunities, Kroger also recently acquired four Price Savers Wholesale Club stores (located in the Northwest) from Pay 'n Save. These stores afford Kroger entry into the fast-growing membership wholesale club business, an area already being explored by such retailing giants as Zayre and Wal-Mart.

Industry analysts contend that Kroger is attracted to this field because these stores generate a great deal of cash flow. It is estimated that each existing 100,000-sq.-ft. unit will generate sales of \$80 million to \$100 million when it reaches maturity.

These stores, however, also require a lot of capital, with start-up costs estimated to range from \$5 million to \$10 million. There has been speculation that Kroger plans to expand this concept into the Midwest, but so far Kroger has not released any such plans.

At the same time, Kroger continues to be plagued by union woes in its food operations. Shortly before press-time, Kroger announced that it was closing its last 23 northeast Ohio stores as a result of what it contends are excessive union demands. Last year the chain closed a total of 171 units.

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BIG BUILDERS/AMES

Murphy buy doubles chain

Ames Department Stores, Rocky Hill, Conn., leads this year's Big Builders gross square footage list with impressive additions that more than double the size of the discount store chain.

It should be noted, however, that over 80% of Ames' 1985 expansion is through the acquisition of the G. C. Murphy chain. Murphy, purchased midyear by Ames, operates larger discount department stores called Murphy Marts as well as smaller variety store operations.

The total purchase, which cost approximately \$200 million, consisted of 118 discount department stores and 263 smaller variety stores.

The acquisition of those 381 stores added approximately 11,631,000 sq. ft. to Ames, of which 7,371,000 sq. ft. makes up the 118 larger Murphy Marts. The balance is from the smaller variety stores which range in size from 5,000 sq. ft. to 100,000 sq. ft. For the purposes of calculating the total G. C. Murphy square footage, the smaller stores were estimated to average 20,000 sq. ft. each.

Subtracting out the square footage gained through the acquisition, Ames own new stores built this year totaled 1,038,711 sq. ft. The chain added 18 new units ranging in size from 43,200 sq. ft. to 103,152 sq. ft.

Those units were added primarily in the Northeast corridor and its fringes, in states where Ames had an existing presence. The new stores include four in Massachusetts, one in Connecticut, three in New Jersey, three in Virginia, three in New York, one in Pennsylvania, two in Maine and one in West Virginia.

The acquisition of G. C. Murphy, however, takes Ames into foreign turf. More than half of the Murphy Marts fall in Ames' 11-state territory (Virginia became part of the territory last year); the balance lies farther west and south. These new states include Kentucky (three stores), Indiana (eight stores), Michigan (two stores), Ohio (27 stores), Illinois (one store), Alabama (one store), Louisiana (five stores) and Mississippi (one store).

None of these stores, nor the variety stores, is operating under the Ames name as yet, according to a source within the company. That transition can be expected to begin sometime next year. Also, these units will continue to be operated out of the

Ames		
	1985	1984
Stores in operation at end of calendar year	579	180
Total stores added in calendar year	399 ¹	54 ²
Gross square footage added in calendar year	12,669,711	2,700,000
No. of stores closed	0	1
Total capital expenditures	\$37 mil.	\$37.55 mil.

¹Includes acquisition of G. C. Murphy
²Includes acquisition of 42 Kings stores from KDT Industries
Source: Chain data and Chain Store Age Executive estimates

G. C. Murphy headquarters in McKeesport, Pa.

Absorbing outside chains into the company is nothing new for Ames. Last year the company substantially boosted its square footage with the acquisition of 42 Kings stores from KDT Industries. This came on top of the construction of a dozen new Ames units, bringing to 180 the number of Ames stores operated at year-end.

The company also remodeled 21 stores last year as part of a renovation program that began in 1981. As of the beginning of this year, 45 stores had been remodeled. Renovations are continuing through this year as well.

For the most part, Ames prefers to locate its stores in rural and small town locations. As of last year, however, it tested the waters of a larger urban market (Richmond, Va.) and found it so successful that a second Richmond store was added last month. The company has indicated it may attempt to seek that same success in a few other larger markets in the future.

On top of acquiring these millions of square feet, Ames is also adding a limited amount of space through the remodeling of approximately 30 older stores. The company's increased sales volume and the inclusion of larger, bulkier items into its merchandise mix has prompted the enlargement of these smaller stores.

A new prototype design for future Ames department stores is also under development and it will be larger than the company's current 50,000-sq.-ft. average store size.

Prior to the acquisition, Ames had slated a 1985 capital expenditures budget of approximately \$37 million. Revised figures were not available as of presstime. ■

Using its specialty strategy



Plans for the drug and health & beauty aids chain include adding 55 units and closing 11.

Melville, capitalizing on its specialty store retailing strategy of building highly focused separate retail store groups, again this year is investing heavily in the growth of such units.

Before year-end, the company plans to have spent approximately \$103 million for capital expenditures, down slightly from the \$113 million it invested in 1984.

However, the 1985 figures were set prior to Melville's decision earlier this year to sell off its Foxmoor chain. While this 618-unit young women's apparel store chain generated 1984 sales in excess of \$161.8 million, its earnings had a depressing effect on overall net income generated by Melville's apparel segment.

One of Melville's most rapidly expanding divisions continues to be Kay Bee Toys. This year's plans call for 60 additional units to be opened on top of the 79 units opened last year.

In carrying forth this expansion, Kay Bee is also continuing its strategy of opening its stores in shopping center locations, and primarily in strip centers.

Melville also intends to build on the improvement in both sales and earnings registered by CVS, the company's drug, health & beauty aids chain. Plans call for the addition of 55 units, with 11 CVS stores slated to be closed.

Despite some industry reports about problems in the off-price industry, such doomsayers don't appear to be affecting Melville's plans for Marshalls, already the nation's largest off-price apparel chain of men's, women's and children's apparel, with 209 units at the end of 1984.

This year, Marshalls is opening 30

units to bring its total to 239 by year-end. This is down slightly from last year's aggressive expansion program which saw 35 units added to the chain. Yet, it still demonstrates Melville's continuing support of this concept.

Melville		
	1985	1984
Stores in operation at end of calendar year	6,099	5,911
Total stores added in calendar year	274	277
Gross square footage added in calendar year	2,862,000	2,145,000
No. of stores closed	86	113
Total capital expenditures	\$103 mil.	\$111 mil.

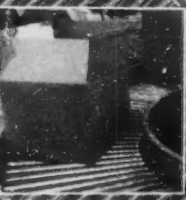
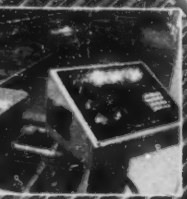
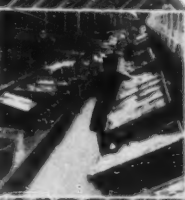
Source: Chain data and Chain Store Age Executive estimates

In 1984, for the first time Marshalls passed the \$1 billion mark for the first time, generating revenues of approximately \$1.1 billion.

Also in the off-price category, the company is adding 25 stores to its Linens n Things chain, featuring home textiles and related products. The chain also plans to close two units, bringing its year-end total to 122.

Twenty-five units each are also being added to two other Melville chains. These include Chess King, Melville's young men's apparel stores and Wilson's, specializing in leather apparel and accessories. ■

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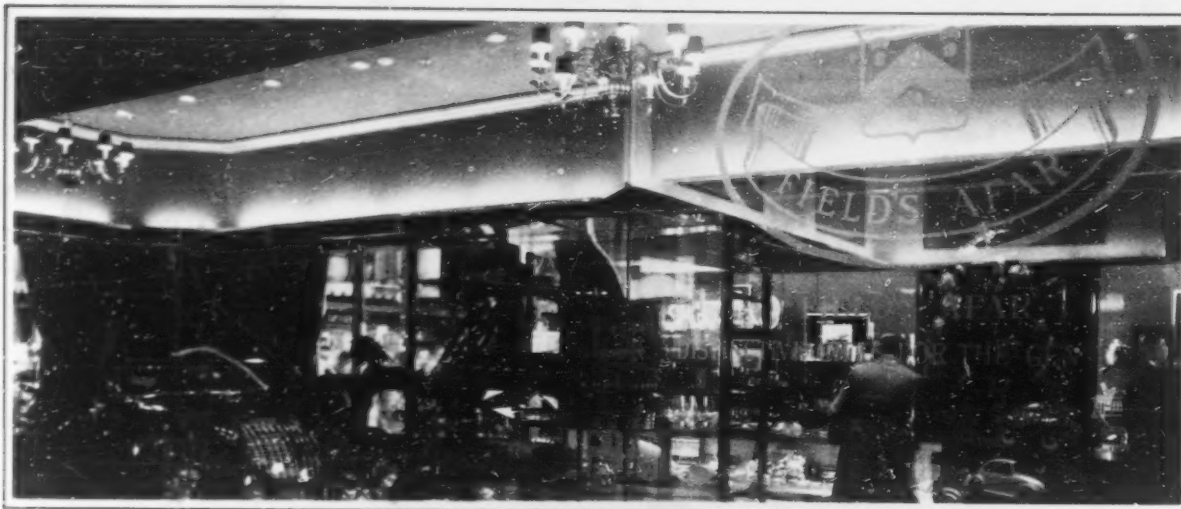


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THE LOOP COMES FULL CIRCLE

While it might not be obvious to the casual observer, State Street, the Loop's retail hub, is showing signs of a revival. New specialty retailers have moved into the area; Marshall Field and Carson Pirie Scott have each invested \$25 million in their flagship stores. And a major new retail project is on the drawing board. 13



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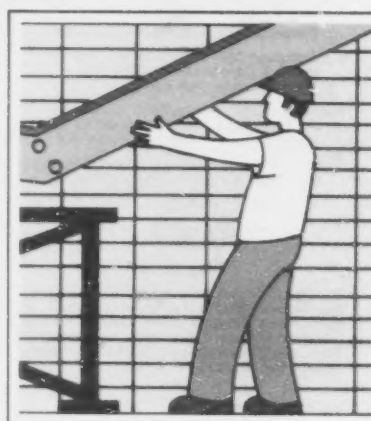
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SHOPPING CENTER AGE

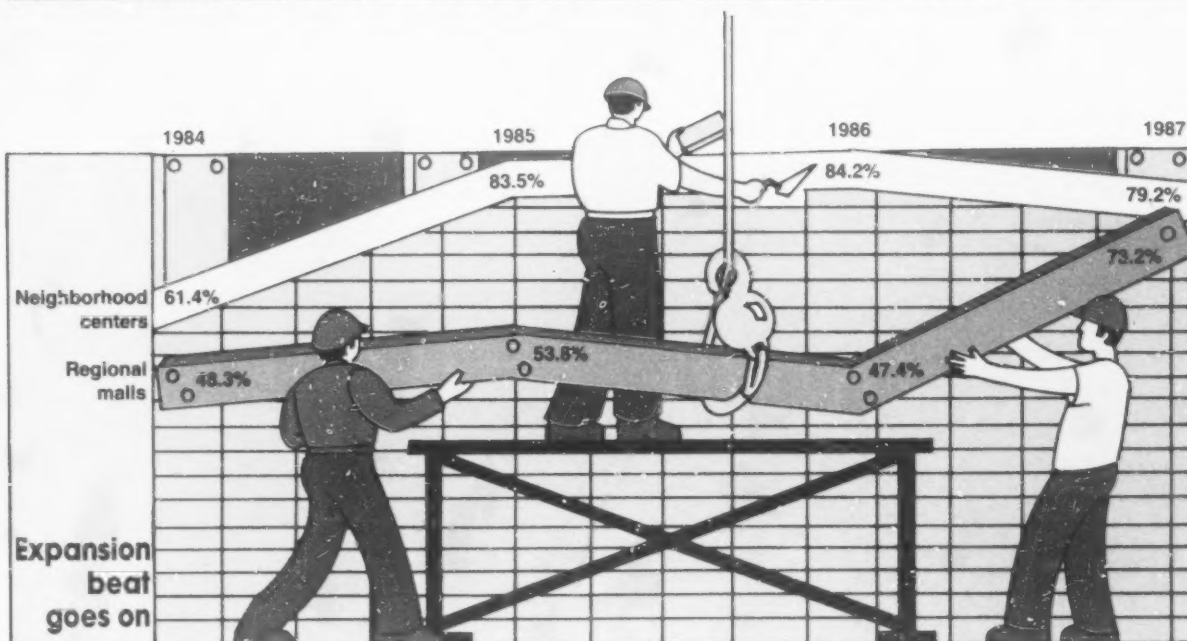


SURVEY: BETTING ON A SURE THING?

The gamble is that the supply of space won't exceed retail demand. *Chain Store Age Executive's* annual construction outlook measures the stakes. Also in this issue, a look at the real estate strategies of Irresistibles, a nine-unit upscale women's apparel chain. 31

BETTING ON A SURE THING?

IN BUILDING NEW CENTERS, DEVELOPERS GAMBLE ON RETAIL DEMAND FOR SPACE



Source: Chain Store Age Executive research

Shopping center developers are no strangers to high stakes games. But they are taking a particularly big gamble in betting that retail real estate demand will be great enough in 1987 to fill a substantial amount of new center space.

What's more, much of this space will be in brand new regional malls, marking a real upswing in large center construction, and perhaps signaling some major changes in retail location strategy.

Specifically, while many retailers have turned to small center sites to fulfill their expansion needs, with a plethora of new opportunities, they may reverse this decision. This, in turn, may help cause some slowing down of construction of new neighborhood/convenience/community centers.

These are only some of the inferences that can be drawn from a survey of shopping center development trends recently conducted by *Chain Store Age Executive*. This research focuses specifically on plans for additions to GLA, whether through new construction, center expansion and/or acquisitions of existing centers.

Respondents included developers of varying types of centers, including the following: specialty centers;

mixed-use/multi-use centers in suburban locations, mixed-use/multi-use centers in downtown locations; and off-price/outlet centers.

Specific analysis was also made of plans for additions to GLA being made by developers who cited regional malls or neighborhood/convenience/community centers as their primary area of involvement.

Among the regional mall group planning additions to GLA, a respectable 47.4% expect to open new centers before this year is over, down slightly from 53.8% who opened new centers last year.

However, what's most significant is that this percentage jumps all the way to 73.2% for 1987.

In order to lease all of this space, these regional mall developers are betting not only that there will be further expansion by traditional mall anchors, department stores, but also that other types of possible anchor tenants, including promotional stores (Mervyn's) and catalog showrooms (Service Merchandise), will continue to be attracted to such locations.

They are also wagering on the fact that not only will traditional specialty store tenants such as The Limited, U.S. Shoe divisions, Melville divisions and Petrie Stores, add still more

units, but also that a host of new entrepreneurs will continue to appear.

Beyond counting on additional retailer space demands, other major factors spurring regional mall developers are related to significant improvements in center financing.

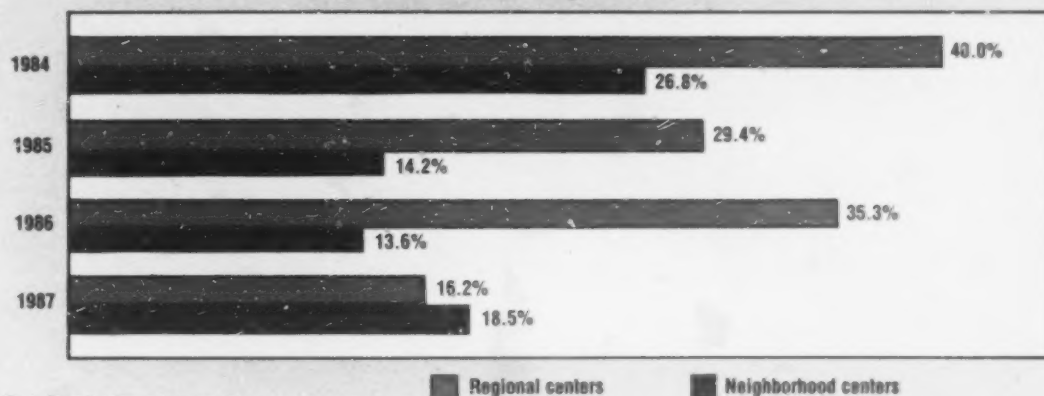
Specifically, interest rates appear to have stabilized at somewhere around 12% or less. In addition, conventional long-term mortgages have re-emerged as a major financing tool. The survey indicates, for example, that already in 1985 67% of those developers involved primarily in regional mall development took advantage of this financing tool, up significantly from only 26% in 1984.

Regional mall developers also have the odds in their favor in terms of having learned to contain construction costs. Average costs per square foot of new construction are expected to rise to \$33.40 this year, up 7% from 1985's \$31.20. However, that figure is a whopping 25% below 1984's \$45.80.

Some possible explanations for this drop include improved construction techniques and better, lower cost materials alternatives.

Conversely, costs keep going up for those survey respondents whose primary area of development neighborhood/community/convenience

Watch out for regionals!



centers.

Already, in 1985, average cost per square foot for such construction climbed above that for regional mall building, to \$38.90. This is up 6% from the prior year's \$36.70 per square foot, and also up 20% from comparable regional mall costs.

A more moderate increase is expected this year with per square foot costs rising to \$40.40, or a 4% climb.

The major reason for these continuing increases is obviously the increased attention being paid to esthetics by such developers, evidenced by the increased use of landscaping as well as by greater architectural detailing.

The continuing climb in costs may be one reason why by 1987 the GLA additions accounted for by new center construction are likely to be declining for neighborhood/convenience/community center developers. New centers are expected to account for 84.2% of GLA additions this year, up very slightly from 1985's 83.5%.

Even more significantly, that figure is expected to drop substantially in 1987, with new centers accounting for only 79.2% of new space, and only slightly above regional mall developers' projections of 73.5%.

At the same time, though, the average size of neighborhood/convenience/community centers continues to increase: in 1984, 161,000 sq. ft.; in 1985, 188,000 sq. ft.; and this year a projected 200,000 sq. ft.

The average size of new regional malls is also projected to again be on the upswing, up to 496,000 sq. ft. from last year's 473,000 sq. ft., but still below 1984's level when the average size was 520,000 sq. ft.

The average size range of these

new regional malls appears indicative of their locations which fall into two basic categories: in-fill locations where there might be a number of nearby competitors and middle-markets where the population cannot support a larger facility (in this case, though, the centers are often built with plenty of room for further expansion).

The study did not research the average size for 1987's new centers but there are already strong indications that the size range may go up sharply. That's because a number of the nation's leading developers have already announced plans to go ahead with super-regionals—centers reaching or surpassing 1 million sq. ft.

Reflecting the latest increases in the size of both regional malls and neighborhood/convenience/community centers, the overall average for new center size is also on the upswing. Looking at the total survey universe, the average size of centers rose to 269,000 sq. ft. in 1985, from the prior year's 228,000 sq. ft. It is projected to increase further this year, to 313,000 sq. ft.

Again looking at the total survey group, 88% of those surveyed expect to add to GLA in 1986; falling to 82% in 1987 (but here a full 18% of the survey participants said they were still undecided about 1987 plans).

Among those reporting or projecting additions to GLA, 60% opened new shopping centers in 1985, 64% expect to open them next year and 76% have new center openings already planned for 1987.

Looking specifically at the geographic breakdown of new construction, it appears that regional mall development is remaining strongest in

the southeast this year, with 46% of those regional mall developers building new centers this year locating them in that region. This is down, though, from 64% reporting new southeast projects in 1985.

Conversely, while none of this group reported new centers opening in either the mid-Atlantic or Midwest areas during 1985, each of these areas was cited by 9% of the group as being targeted for new center construction this year. (In contrast, last year 9% reported building new centers in the Northeast; no one reports new construction planned for that region this year.) Other areas where some regional mall development is taking place this year include the Southwest area and the Pacific area; each was cited by 18% of this year's respondents. These compared to 18% and 9% respectively for these areas in 1985.

While regional mall development appears to be growing more geographically diverse, just the opposite appears to be happening in the case of neighborhood/convenience/community center development. Here, by far the most dominant area, cited by 73% of the respondents, is the Southeast. This is followed by 13% respectively for both the Southwest and the Pacific areas. No other regions were mentioned.

This compared to 64% reporting 1985 development activity in the southeast, and 14% respectively for the Southwest and Pacific. Seven per cent of this group also indicated that last year they opened centers in the mid-Atlantic region.

While the survey indicates an upswing in new center building, the flurry of activity surrounding the expan-

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SHOPPING CENTER AGE

Trends in construction financing

The recent study of the shopping center development outlook conducted by *Chain Store Age Executive* indicates that such developers are using a diverse assortment of vehicles to finance both expansion of existing centers as well as the building of new ones.

However, what the results show most clearly is a substantial upsurge in the use of conventional long-term mortgages.

Looking at the total survey sample, between 1984 and 1985 the usage of these tripled among this group, used by 40% last year, compared to only 14% in 1984.

The increased popularity of such loans is obviously a reflection of a number of changes in the financing market including the greater availability of such mortgages at better interest rates.

As if this increase in usage isn't significant enough in itself, among those survey participants who cite regional malls as their primary area of center development, the change is even more pronounced. While only 26% of this group made use of such loans in 1984, the number went up to 67% last year.

Even those builders who are primarily involved in neighborhood/convenience/community centers got in on the action. While none of this group reported making use of conventional mortgages in 1984, 25% did last year.

Conversely, 1984's No. 1 financing method, open-end construction loans, fell to the No. 2 position, used by only 15% of those surveyed. They were used by none of the regional mall group.

However, open-end loans remained the dominant means of financing neighborhood/convenience/community centers, utilized by 31% of this group, and down only slightly from 1984's 32%.

In abandoning open-end loans, what the regional mall group turned to instead was permanent take-outs, used by 5% in 1985, after not being used at all in 1984.

This financing tool also became more popular for neighborhood/convenience/community center developers with 19% of this group reporting obtaining such financ-

ing, up substantially from only 4% in 1984.

For the survey group in total, the use of permanent take-outs last year rose to 10%, from 2% the year earlier.

At the same time, the popularity of the "do-it-yourself-route," i.e., using internally generated funds as construction financing, dropped somewhat, to only 8% of the survey total, down from 14% in 1984.

The drop was most noticeable among neighborhood/convenience/community center developers; 9% of this group funded their projects internally in 1984, none did last year.

Among the regional mall group, the decline was almost as great, utilized by only 10% down from 16% the year before.

Conversely, the use (and availability) of public money appears to have come back in vogue in 1985, used by 8% of those developers surveyed, up from 2% in 1984.

Similarly, while those developers dealing primarily with regional malls or with neighborhood/convenience/community centers did not make use of public funds in 1984, 5% and 6% did so last year.

While public money became more attractive, money acquired through arrangements with pension funds declined in popularity (and have not been used at all in either of the last two years by the neighborhood/convenience/community center group).

For the total survey group, only 4% reported using such money, down from 6% a year earlier. Looking at the regional mall respondents specifically, only 10% of that group made use of such money last year, down from 16%.

The regional mall group also moved completely away from utilizing revolving lines of credit, although 5% took advantage of the availability of such lines in 1984. Their usage remained virtually the same for the neighborhood/convenience/community center developers, used by 13%, compared with the previous year's 14%. For the survey group as a total, this method was used by 4% in 1985, down from 8% in 1984.

sion of existing centers may be dying down.

For example, the report shows that for the total survey group expansion of existing centers is expected to account for only 14.6% of GLA additions in 1987, down significantly from 23.8% forecast for this year, and from 1985's 21.3%.

The decrease, though, is most dramatic when looking at the regional mall classification specifically. In 1987, only 16.2% expect to expand centers, a big drop from this year's 35.3% (in 1985, expansion accounted for 29.4% of GLA additions).

Obviously the higher level of new construction is causing part of this shift. One familiar scenario is that a developer finds himself now able to go ahead with brand new centers, because he finally got all of the local clearances needed, because he was able to attract strong anchors for such a project and/or he was finally able to obtain a palatable financing package. Such conditions make new center construction a better bet than it's been for the past few years.

However, another major explanation for a decrease in expansion construction is that some developers quite simply may be running out of suitable sites, having turned almost 100% of their attention to the expansion of existing projects during the height of the recession.

The situation is considerably different in the case of expansion of neighborhood/convenience/community centers, particularly because most such developers have consistently maintained a high level of new construction throughout the recession. Consequently, seeking expansion opportunities has not been a priority.

Specifically, expansion of existing centers is expected to account for only 13.6% of this category's additions to GLA during this year, down slightly from 14.2% in 1985. However, this percentage is expected to rise to 18.5% in 1987.

At the same time, the average additional square feet created in the expansion of an existing center is expected to be only 60,000 sq. ft. this year (figures for 1987 were not obtained in the survey). This is down considerably from an average of 119,000 sq. ft. in 1985, but closer to 1984's average of 50,000 sq. ft.

Conversely, the average addition to regional malls remains at a more consistent level. Projections indicate such projects will add an average of 171,000 sq. ft. this year, up slightly

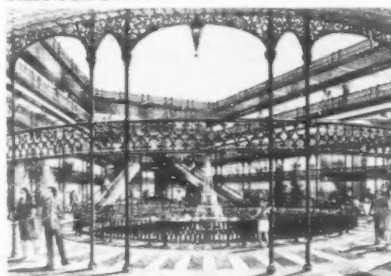
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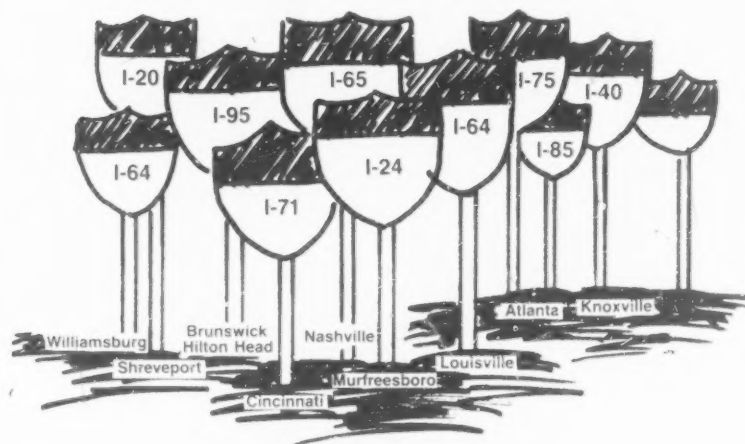
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from 153,000 sq. ft. in 1985 and
163,000 sq. ft. in 1984.

For the survey group in total, the
average for 1985 and 1986 is project-
ed to remain constant at 125,000 sq.
ft., up from 1984's 94,000 sq. ft.

In terms of expansion costs per
square foot, as in the case of new con-
struction costs, these too are on the
decline. Specifically, for the total sur-
vey sample, the average cost per
square foot for expansion is expected
to fall to \$30.70 this year. While only
1% below 1985's \$31.10, it marks a
significant 28% decline from 1984's
average of \$43.30 per square foot.

For regional mall developers, the
situation is basically the same; an av-
erage of \$33.20 projected for this
year, down slightly more than 1%
from 1985's \$33.60 per square foot,
and 30% below 1984's average of
\$47.50.

The situation is only slightly differ-
ent in the case of neighborhood/con-
venience/community center devel-
opers, with costs this year projected
to decline by 5% to \$26.10 per square
foot, from 1985's \$27.50. This also
represents an even heftier decline of
over 36% from 1984's \$41.70.

An area where the differences be-
tween regional mall developers and
neighborhood/convenience/com-
munity center developers is even
more marked is in terms of acqui-
sitions.

In the case of the regional malls, for
example, acquisitions are expected to
account for a significant 17.2% of this
year's additions to GLA. However, in
the case of smaller centers, this area is
expected to account for only 2.1% of
projected increases.

While looking ahead to 1987, the
level of acquisitions of regional malls
is expected to decline to 10.3% of
GLA additions, it is still well above
neighborhood/convenience/com-
munity center's 2.3%.

One possible reason for these dis-
crepancies is related to the availabil-
ity of new development, or expan-
sion, opportunities. In particular, in
the case of regional malls, for many of
these developers, it may very well be
easier to expand their GLA holdings
through buying an existing center
rather than taking the risk of building
a new one, or expanding an existing
one.

Yet, those developers willing to
take the gamble of new center con-
struction may receive the biggest
payoff of all. It's up to them to weigh
the odds and hope they turn out to be
in their favor. ■

MURKY SKIES AHEAD

FORECASTERS TRY TO SEE THROUGH THE FOG

Leo Cherne has been making financial forecasts for more than four decades. However, he is facing one of his greatest challenges yet in trying to bring the 1986 economic picture into focus.

"I have never, or at least not in many years, known the picture ahead to be as murky," says Cherne, chief economist for the New York City-based Research Institute.

"As a matter of fact," he adds, "I cannot tell you how difficult the task is of penetrating the mystery of 1986," especially when it comes to arriving at exact numerical measurements.

Such admissions are a rarity especially among economists who are usually an extremely self-confident lot. However, many of Cherne's peers

expect that the economy will fall out of bed for 1986."

There are, of course, always those economic variables that can play havoc with the forecasts—even when the future is far less foggy. For instance, in 1986, "There could be some emotional impact that would relate to a new tax law and to any positive steps that could come out of Congress to address the deficit," says Kilmartin.

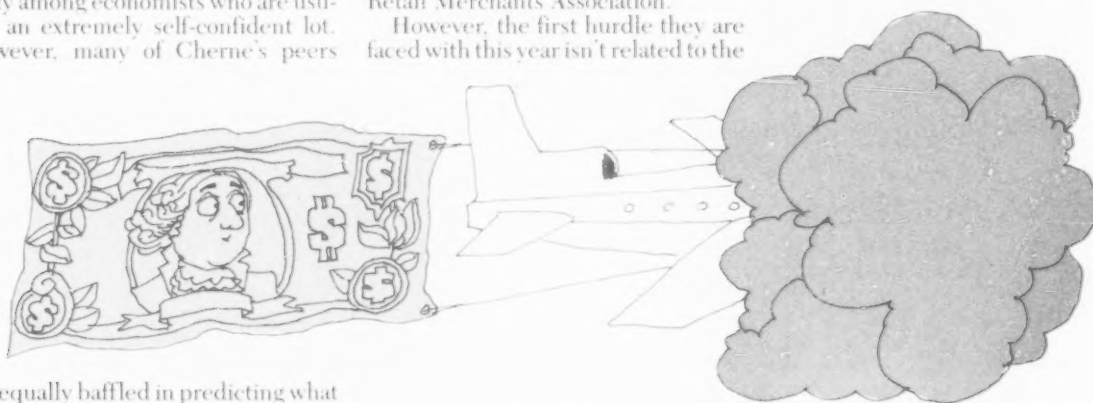
Such possibilities are likely to be on the minds of Kilmartin and other leading general merchandise retailing executives when they gather in New York City later this month for the annual convention of the National Retail Merchants Association.

However, the first hurdle they are faced with this year isn't related to the

Looking ahead to 1986, she is forecasting that nonauto consumer spending will be up approximately 5% year-to-year.

General merchandise, apparel and furniture retailers should fare slightly better, with GAF sales projected to rise 5.5%, according to Rosalind Wells, manager of corporate economics at J. C. Penney. She also believes that the outlook for such retailers should show steady improvement after the latest round of auto incentives, as consumers once again shift their purchasing patterns.

However, "muddling along" is how she describes the economy in gener-



are equally baffled in predicting what lies ahead for the economy.

The only thing they appear sure of is that there's no recession on the horizon. Conversely, they agree that there aren't any really positive developments in sight either.

Unemployment is expected to continue to hover at around 7%. Significant growth in personal income isn't likely. Inflation will be moderate, at somewhere between 4% and 5%. And interest rates aren't likely to move much—up or down.

"The economy in 1986 will probably be comparable to 1985," says Jack Kilmartin, chairman and ceo of Merwyn's. In other words, the situation will remain pretty much *status quo*—or so retailers and economists alike are assuming.

For example, James Moody, chairman and ceo of Hannaford Brothers, and chairman of the Food Marketing Institute, says, "My expectation is more of the same for the economy in 1986. There will be some continued growth, but nothing dramatic. I don't

economy but rather to intense competition coming from the Detroit automakers. Following the pattern of last September and October, the automakers are launching another round of auto purchasing incentives, including offering lower interest rates and longer payoff schedules to encourage new car purchases.

"With the limited amount of money consumers have to spend, when they spend for autos, they are likely to spend less for other items," points out Cherne.

Just what magnitude this effect can have is shown by what occurred in last year's third quarter—when many of the auto incentives went into effect. While the figures for that quarter were eventually revised to indicate a 5.3% increase in consumer spending, growth in automobile sales accounted for approximately 70% of the increase, according to Dr. Sandra S. Schaber, an economist with Chase Econometrics, Bala Cynwyd, Pa.

al. "I don't think there are any signs of a recession, but neither are there signs of strength anywhere."

Michael Rourke, vp-communications and corporate affairs for A&P, agrees with this assessment—but only up to a point. "In general, I look forward to a continuation of the overall improvement that we have been experiencing for the past couple of years during the first half of 1986," he says. "But after that it is a little cloudy as to whether that will continue."

However, at Giant Food, the Landover, Md.-based supermarket chain, David B. Sykes, senior vp-finance, claims to be "very bullish about our economy." He adds, "I'm looking for stabilized interest rates, if not lower interest rates, and that should help all of us."

One of the areas of retailing most sensitive to interest rate swings is jewelry sales. At Kay Jewelry, the nation's third largest jewelry store chain (see related story this issue), Michael



Forecast for selected economic indicators
(Year-to-year percentage change in constant dollars)

	GNP	Disposable personal income	CPI	Savings rate	Personal expenditure	General merchandise sales ¹	
						Constant dollars	Current dollars
1980	(0.37)%	0.59%	13.49%	6.03%	0.46%	(0.37)%	6.72%
1981	2.52	2.71	10.35	6.73	2.00	3.10	8.88
1982	(2.13)	0.85	6.15	6.23	1.35	(0.22)	4.08
1983	2.70	3.51	3.20	5.05	4.76	5.52	8.94
1984	6.82	6.72	4.25	6.08	5.27	9.43	10.59
1985 ^e	2.47	2.42	3.83	4.78	4.10	4.80	7.20
1986 ^e	3.38	2.90	4.82	5.20	2.46	3.86	7.35

¹ General merchandise sales are equivalent to durable goods sales, minus autos, plus nondurables sales minus food, fuel and gas.

() decrease ^e estimate

Source: Dean Witter Reynolds

R. Lavington, president and coo, points out that if interest rates should climb, "It will have a negative effect—we saw that in 1980 and in 1981. But now they're better than they've been in years. There is no indication that they will shoot up and that is a favorable factor."

Another uncertain factor is what will be the impact of the current unusually high rate of consumer debt, although some retailers thus far don't appear overly concerned.

As A&P's Rourke points out, "It's been pretty high for the past couple of years and that hasn't had a strong impact so far."

A note of caution, though, is sounded by Henry Panasci Jr., chairman of Fay's Drug. While not directly impacting the drug business thus far,

"High consumer installment debt indicates a lesser amount of disposable income to be used for purchasing general merchandise," he says. "To this extent, there will be a softness in the sale of general merchandise."

Mervyn's Kilmartin also admits that "The high consumer installment debt could have a negative impact on retail spending."

However, Susan Sterne, chief economist with Economics Analysis Associates based in Stowe, Vt., takes

a very different view of the potential impact of the high consumer debt load. While conceding that "Consumers have, without a doubt, used a lot of credit," she thinks that not only will this "become the norm" in the future, but "I don't think it has the negative influence that it had in the 1970s." Why not? "Because the consumer is financially much healthier in the 1980s. While he has a lot of debt, he also has a fairly big store of financial savings behind that debt. This enables him to maintain a relatively good amount of expenditures."

She adds, "Literally, you can look at total debt outstanding in relation to disposable personal income. Historically, within every economic cycle the ratio of outstanding debt to income has reached an all time high. But, at the same time, we are seeing an environment of a significant lowering of the rates paid, especially in the automotive area. By offering extended terms and lower interest rates on a monthly basis the consumer can support more debt because this burden isn't as significant when the monthly payments aren't so great."

Joseph Saul, chairman of New York City-based Brooks Fashion Stores, also tends to think that perhaps too much attention has been focused on

the consumer debt burden. "Consumer debt is not as high as everyone claims," he says. "It's actually the consumer managing his money. It's not really debt. It's just a shifting around of money."

Yet, no matter what the actual impact of this particular economic indicator, most economists tend to agree that consumer spending can't continue to fuel the economy forever. As Wells observes, "Consumer spending has been leading the way, but income hasn't been rising at the same pace. With a drop in the savings rate [that she expects can't continue forever] and an increase of debt in relation to income, you can't expect consumers to be the driving force," and the slack doesn't appear likely to be taken up by either government spending or the business sector.

Therefore, most projections call for growth in the Gross National Product (GNP) to hover at only somewhere between 2.5% and 3% at least through the first half of the year. After that, the crystal ball grows even hazier, although most forecasts call for an increase in GNP for the year of no more than 3.5% at the outset.

However, there is still a chance for further improvement. For example, Sterne says that at Economics Analysis Associates, "Basically what we expect is a relatively slow start to the year, with gradual upward momentum. This doesn't mean a recession but just a continuation of very modest growth."

She is also quick to add that retailers may be suffering their worst problems right now as they battle "a very promotional environment of large ticket auto sales." Following this period, though, "they should expect to fare substantially better."

Attempting to gaze farther ahead to the second half, she foresees a general inventory buildup among American businesses which will help to lower the value of the dollar, a development which favors U.S. manufacturers. This development, will,

in turn, "lead to income growth which favors retailing," she points out.

Another development which would definitely favor retailing, should it come about, is an improvement in the housing market. So far, and despite last year's drop in the interest rates, no such development is in sight.

One lesson learned from the housing sector's disappointing performance is that it takes a lower interest rate than originally was anticipated to really spur sales, according to Sterne. Therefore, at least over the near term, "I view housing as sort of a stable area—kind of a neutral in the economy."

What's happened, she claims, is really related to the question of affordability. In 1976, for example, when interest rates hovered at 8% or less, 70% of the population could afford the average house, she says. However, in 1984, only 34% could afford it at a 12% mortgage rate (housing has, of course, also gone up considerably in price)—and there's been

Economic forum consensus				
	Actual	Esti- mated	Projected 1985	
	1984	1985	Median	Range
Economic growth (Real GNP, %)	5.7	2.1	3.2	2.0 to 4.5
Inflation (GNP deflator %)	3.6	3.6	4.2	3.1 to 4.9
Unemployment rate (%)	7.2	7.0	6.8	6.4 to 7.5
Prime rate (%)	11%	9½	9%	8.5 to 12

Note: Figures for growth and inflation are per cent changes over the four quarters of the year, i.e., from 1985's fourth quarter to 1986's. For the unemployment rate and the prime rate, figures are for the fourth quarter of the year.

Source: Economic Forum Flash Report, The Conference Board

little change in rates since then. In addition, of this group, 85% already owned a house, while in 1976 only 50% had already made such a purchase.

Barbara Alexander, a retail industry analyst with Salomon Brothers, says, "While I think affordability is a

necessary condition for spurring housing starts, I don't think it alone is sufficient. There are a number of other conditions which are also a factor."

One of these is the fact that in most areas of the country appreciation on houses is "so relatively low that it is not the purchasing incentive it used to be—especially since now someone generally has to own a house for two years or more just to cover all the closing and related costs."

Consumers' willingness to saddle themselves with extremely large housing payments may also be waning. "It used to be one thing for home builders to leverage themselves up when they thought that there earnings would be up 10% next year, and therefore then a smaller percentage of their income would be going to housing—it was okay to expect to have to eat franks and beans for one year, if you knew that the next year you would be eating chopped meat and then the third year steak. But now incomes are going up at a much slower pace and that's causing consumers to look at leveraging them-

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FINANCE

selves in a different way."

At the same time that owning one's own home might appear less attractive, there is also "An enormous reservoir of rental housing in most markets," Alexander adds. "Not only do consumers have an opportunity to rent homes at extremely attractive prices, but if they don't buy now, their total costs may be lower next year—that's what's been happening for the last three years."

It's not surprising then that housing starts are expected to decline approximately 2.8% this year, down to 1.76 million new units from 1985's 1.81 million, according to Chicago Title Insurance Co., one of the country's largest insurers of property titles.

Yet, home center chains, such as No. 1 Lowe's in Wilkesboro, N.C., aren't letting the housing picture deter them from their scheduled growth. As W. Cliff Oxford, vp-corporate relations, says, "You have to look at the growth of our company as a long-range strategy and not based on the impact of any one given year." The company has plans in the works to open 22 new stores this year.

Oxford also points to a bright spot that has appeared for housing-related businesses. Specifically, he reports that actions of the U.S. Congress concerning President Reagan's tax bill have "come out protecting the one- and two-home mortgages." He adds, "That's an action that brings a sigh of relief because housing starts in the beach and resort areas have been down. People have been living in fear. But now that's behind us and folks will be building second homes again."

According to Wells, because housing starts in general have "plateaued," she believes that home furnishings should be a laggard in any upcoming upturn in retail sales.

An area that she sees remaining strong, however, is "good ole electronics." While sales of such products rose at a rate of over 13% year-to-year in 1985, and while she doesn't expect that rate of increase to continue, "Even in this year I expect to see above average growth in these sales."

Another classification where she believes sales "should hold up well" is women's apparel, with continuing demand created by the "whole population of working women and career women out there."

As for Cherne, by presstime he still hadn't quite brought 1986 into focus. For him, the mystery remains. ■



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EUROPEAN RETAILERS: *The New Immigrants*

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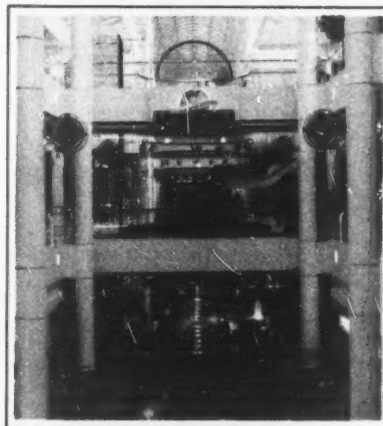
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SHOPPING CENTER AGE



GOING WHERE THE RETAIL ACTION IS

An increasing number of shopping center developers are investing in downtown projects. In some cases they are following the lead of the department stores. However, building in such locations requires an enormous investment of both money and time. 21

KEYING IN ON CONVENIENCE

RETAILERS CAN ACT TO DOUBLE THE SIZE OF THEIR TRADING AREAS

"I like a store that has outstanding selection so that I can find the things I want quickly and I can choose from higher or lower prices."

This comment comes from one of the participants of a recent study of consumer shopping behavior conducted by Leo Shapiro & Associates for *Chain Store Age Executive*. The study is an attempt to pinpoint those factors, covered by the umbrella term "convenience," that influence store patronage.

According to Leo Shapiro, president of Leo Shapiro & Associates, the term convenience encompasses a number of factors that make shopping easier and more pleasant. While travel time is obviously a major factor, it is not necessarily the most significant one.

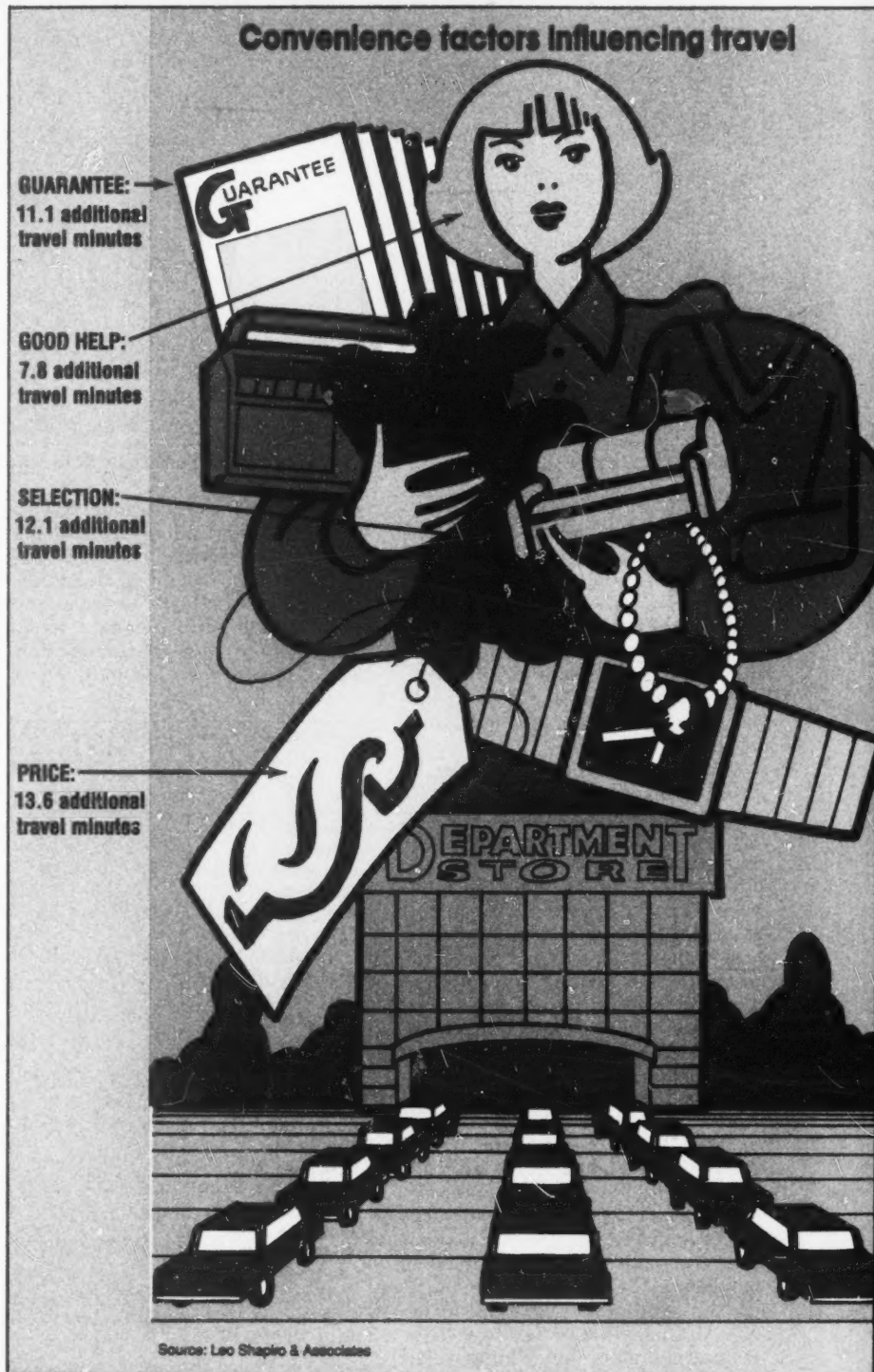
Specifically, the 1,304 survey participants were asked the following questions related to shopping for apparel and home goods:

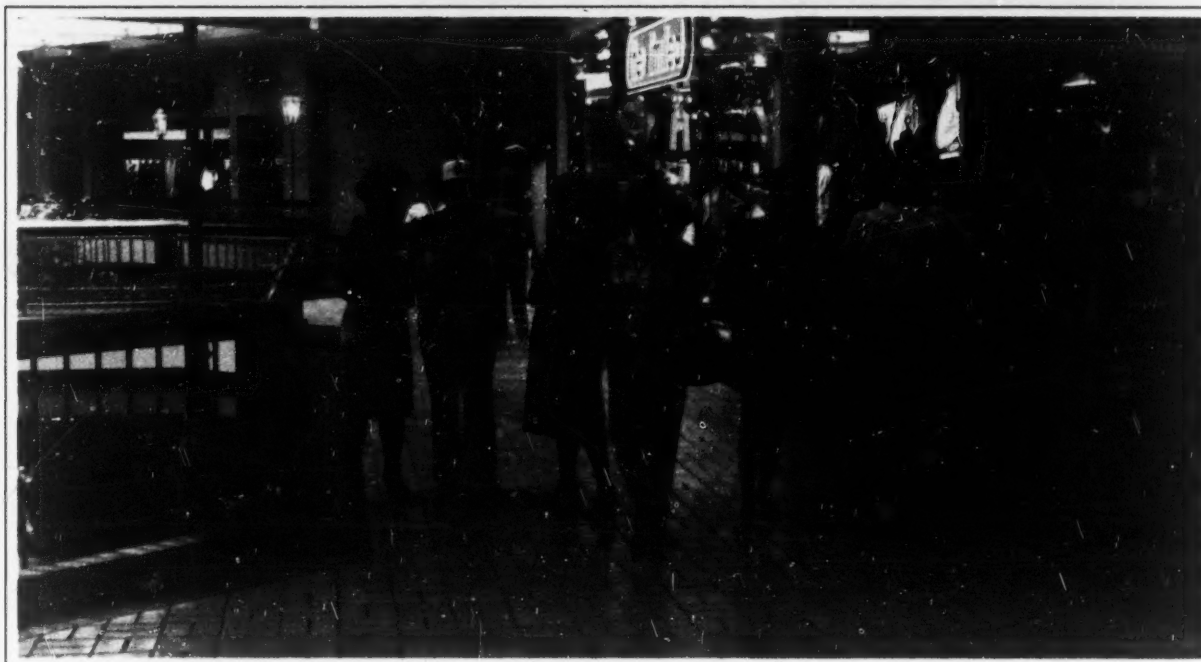
- "Generally speaking, about how long does it take you to get to stores like these from your home? . . . What is the longest it would take you to get there?"
- "What is the shortest time?"
- "How many minutes does it take to get to the store most convenient?"

The answers included the following average times: shortest, 13 minutes; longest, 22.9 minutes; and most convenient, 16.6 minutes.

"Convenience, by this measure, represents a potential increase of 28% in the radius of a store's drawing power, or an almost doubling of the store's primary trade area," says Shapiro.

The 14 major retail conveniences investigated included the following: parking facilities; evening hours; cash-register and/or checkout areas; the ability to charge purchases; less time required to find the merchandise being sought; help in carrying packages to the car; Sunday hours of operation; gift wrapping and/or shipping purchases; good parking lot access; store located in an indoor mall; store designed so that it is not tiring to shop there; sales help; parking lot lighting; and ability to telephone ahead for information about mer-





SHOPPING BEHAVIOR: IF THE RIGHT CONVENIENCES ARE OFFERED, CONSUMERS WILL EXTEND TRAVEL TIME

chandise.

Asked specifically, "Of all the stores you shop for clothing and things for the home, which one would you say is most convenient when you take all these things into account?" 32% of the respondents refer to full line department stores, 26% to general merchandisers and 26% to self-service discount department stores (such as K mart).

Clothing specialty stores are labeled "most convenient" by only 6%; other general merchandisers (including promotional chains, off-pricers and catalog showrooms) by 3%; and other types of stores, including hardware, variety stores, drug stores, shoe stores and furniture stores, by an additional 2%. Five per cent of the respondents did not answer this question.

A later phase of the study added eight factors impacting how satisfied the consumer is likely to be with her purchase.

Two of these factors relate directly to the store's salespeople: "They know the merchandise and are really helpful" and "Salespeople make you feel welcome." The other factors: low prices, outstanding selection of merchandise, satisfaction guaranteed or money back, feeling comfortable with the store's other patrons and store decor. Also included in the list was the general comment that "Shopping the store is really enjoyable."

Even after these additional considerations were introduced, the identity of the store named as most convenient remains virtually unchanged.

"The fact that the store consumers select as 'most convenient' remains constant even after consumer attention is directed to substantive fea-

tures like low prices and selection indicates that, for the consumer, the 'most convenient' store is the one that the consumer feels can be shopped most easily, most comfortably, most enjoyably without tension about price or selection or the availability of skilled sales help," says Shapiro.

In ranking the impact of these various factors, not surprisingly, low price turns out to be the prime motivator of increased travel time for 81% of the respondents. This is closely followed by selection of merchandise, an important motivator for 78% of the survey group.

Likewise, price will spur the greatest amount of extra travel time of any of the factors studied. When the survey respondents were asked specifically "how many more minutes would you be willing to travel to a store because . . . ?" they answered 13.5 minutes in the case of price. This helps to explain the tremendous success of such no-frill concepts as membership warehouse clubs, many of the off-price merchandisers and factory outlet stores and centers which include few of the other major conveniences deemed important to consumers.

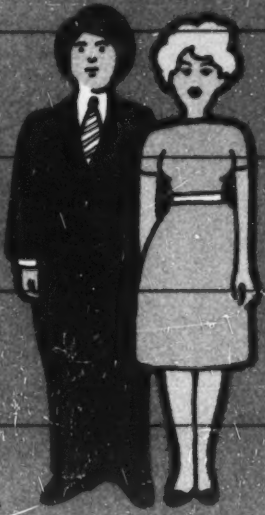
Following broad selection in its overall appeal to the consumers surveyed is "a guarantee of satisfaction or money back," an important convenience factor for 73% of the respondents.

As one participant says, "I'm on a

Average additional travel		
	Willing to travel	Minutes
Low price	81%	100
Selection	78	80
Guarantee	73	82
Good help	69	67
Nice help	59	46
Sales help		
(in general)	57	30
Enjoy shopping there	54	30
Open Sundays	54	36
Less time to find things	50	36
Open evenings	50	32
Can phone ahead	51	29
Lit parking	50	26
Indoor mall	43	24
Parking lot		
(in general)	51	18
Easy into parking lot	48	16
Don't get tired there	42	21
Customers are nice	43	21
Beautiful store	44	17
Use credit card	42	18
Checkout	46	18
Giftwrap	37	11
Carry your bags	18	—

Source: Leo Shapiro & Associates

Who sees what as most convenient?



	INCOME	EDUCATION	AGE	SEX
Full line dept. store	\$40,000 and over 28% Under \$20,000 32%	Some college or higher 32%	65 and older 21% 25-45 29%	Male 43%
General merchandise	\$40,000 and over 14% Under \$20,000 30%	Some college or higher 19%	65 and older 12% 25-45 41%	Male 39%
Self service discount dept. store	\$40,000 and over 10% Under \$20,000 38%	Some college or higher 11%	65 and older 14% 25-45 52%	Male 47%

Source: Leo J. Shapiro & Associates

Percentages refer to characteristics of respondents citing the above store types as most convenient.

tight financial budget. If I can't get the original product and they don't give me my money back and instead want to give me credit, I'm either going to have to go with a product I'm not happy with or buy just to get my money back, instead of going somewhere else to buy the product I originally wanted."

That customer isn't going to shop that store again.

However, the single biggest turn-off for shoppers (most of whom emphatically state that they don't like to shop anyway) appears to be inability to find qualified help on the selling floor.

For example, when salespeople don't make him feel welcome, "I don't feel wanted in the store and I might not go back," says a young male consumer.

He adds, "I want to go in and have them help me pick out styles and colors because I'm not sure what style and color to get."

Although the speaker is only 18 years of age, with an income of \$20,000 to \$30,000, the sharing of similar sentiments appears to have no age, sex or income barriers (unlike demographic differences in the type of store selected as the "most convenient" which are outlined in an accompanying story).

"When there wasn't someone in the store for assistance, it was inconvenient for me to shop there. I was willing to buy what they had but they

didn't offer assistance. I couldn't deal with the situation so I left," recalls a 36-year-old mother of three children, whose income is between \$10,000 and \$15,000.

She adds, "I want to have assistance rather than search and dig for the merchandise. When the salespeople know where the merchandise is, it makes the shopping experience more enjoyable."

Likewise, "It's nice to have someone take the time to help you out, plus then I can find what I want more quickly," says a retired 66-year-old female with an income level of over \$40,000.

The message for retailers is clear. They need to get well-trained, helpful, courteous salespeople out on the selling floor if they want to attract and to hold on to customers.

In fact, the importance of sales help came through loud and clear in their role in motivating additional travel. Specifically, in terms of those convenience factors related to selling personnel, the results are as follows: 69% are motivated to travel farther because of "good help—salespeople know the merchandise and are really helpful," 59% because of "nice help . . . salespeople make you feel welcome" and 57% because of the sales help in general.

Also related closely to these factors is the convenience that "It takes less time to find what you are looking for when you get there," which is impor-

tant to 58% of the survey participants. "Because I don't like to shop, I'd rather just go in, find what I want, buy it and go home. I hate to spend a long time in any store," says a mother of two in Indianapolis (household income in the range of \$15,000 to \$20,000).

Among the other prime motivators is the fact that a store allows customers to "phone ahead for information about merchandise," important to 51% of the respondents.

As one consumer points out, she likes to telephone ahead for information because "I don't like not finding what I want—it's a waste of time. I just hate it if I'm not being productive, being able to get what I want done or take care of business. By telephoning ahead I know who has the merchandise I want and how much it costs."

Likewise, "Why make excess trips when you don't need to and you can save time and gas money . . . my time off is particularly important to me. I don't have a lot of it and I don't want to spend it all shopping around," says another consumer.

Consumers obviously have very definite ideas about what they do, and don't, expect from the stores that they patronize. It's up to retailers to listen to what they want. Only then can they determine where and when to invest in such conveniences to achieve maximum results—in terms of both sales and profitability. ■

CS150-4

Chain Store Age EXECUTIVE

with Shopping Center Age

new magazine for retail management

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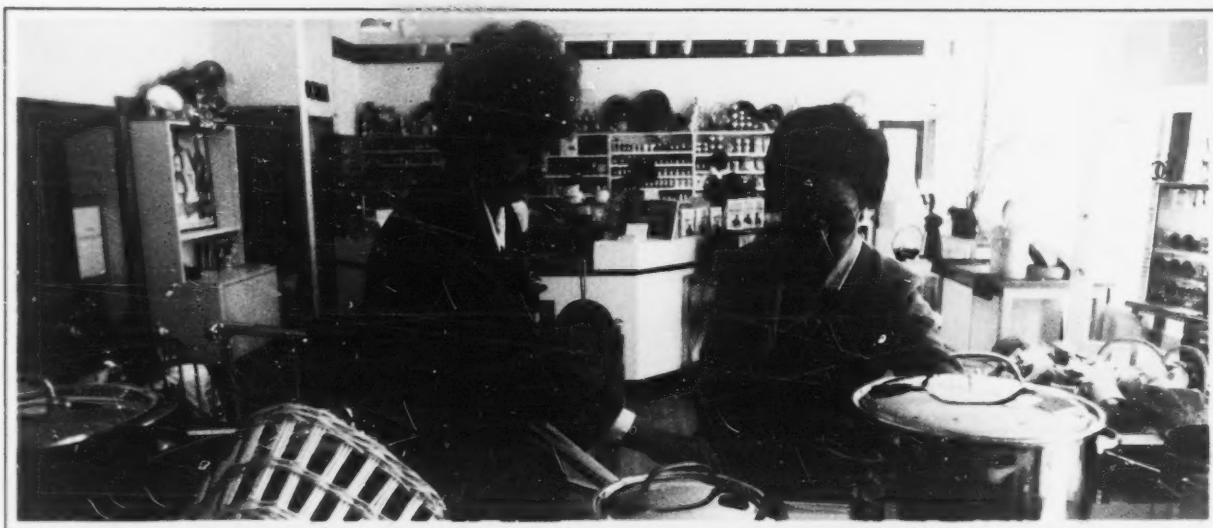
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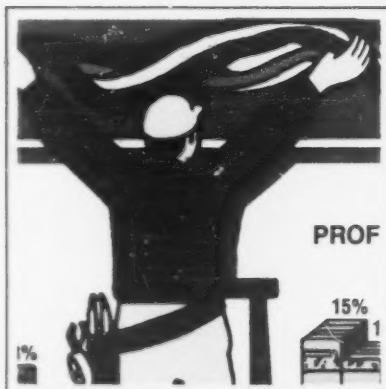
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OPENING UP TO IN-STORE SALES

Despite the popularity of direct marketing, some people simply won't shop by mail. That's one of the reasons why many nationally recognized catalogers are seeking a future behind the four walls of retail stores. They include Williams-Sonoma, Lillian Vernon, Eddie Bauer, Royal Silk and The Sharper Image. 18



1986: SHAPING UP AS YEAR OF THE RETAIL REMODEL

According to an exclusive survey, 91% of retail chains plan to remodel some of their units before this year is over. 11

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SHOPPING CENTER AGE



OPTIMIZING RETAIL SPACE

Because customers demand them, a variety of mixed-uses, including hotels and even cultural facilities, are today being combined into a single retail entity. The difference, though, is that areas for these uses are being designed as integral parts of centers themselves. 23

1986: YEAR OF THE REMODEL

CHAINS' EXPANSION CONTINUES IN SPITE OF CURRENT RENOVATION BINGE

Strawbridge & Clothier in Philadelphia plans and executes at least one major remodel a year plus several minor redos.

Perry Drug, based in Pontiac, Mich., has a less rigid formula. It remodels whenever stores need updating, there's a change in merchandise presentation or more or less space is needed.

While the reasons why may differ, Strawbridge & Clothier and Perry Drug exemplify the remodeling binge now under way in the retail industry.

According to the latest annual survey of chain remodeling activity conducted by *Chain Store Age Executive*, 91% of retail chains, covering all major industry classifications, plan to remodel some of their units before year-end. Such remodelings, however, aren't being undertaken at the expense of new store openings.

Safeway Stores, for instance, opened 100 stores in 1985 while closing 125 older units, and plans to open an additional 90 stores this year.

Supermarkets General has a 1986 capital expenditure budget of \$200 million, 50% more than in 1985, and plans to open up to 35 stores this year, adding approximately 1.1 million sq. ft., or nearly 13%, to company selling space.

Walgreens, which opened a record 106 stores last year, is planning to open at least 120 more in 1986.

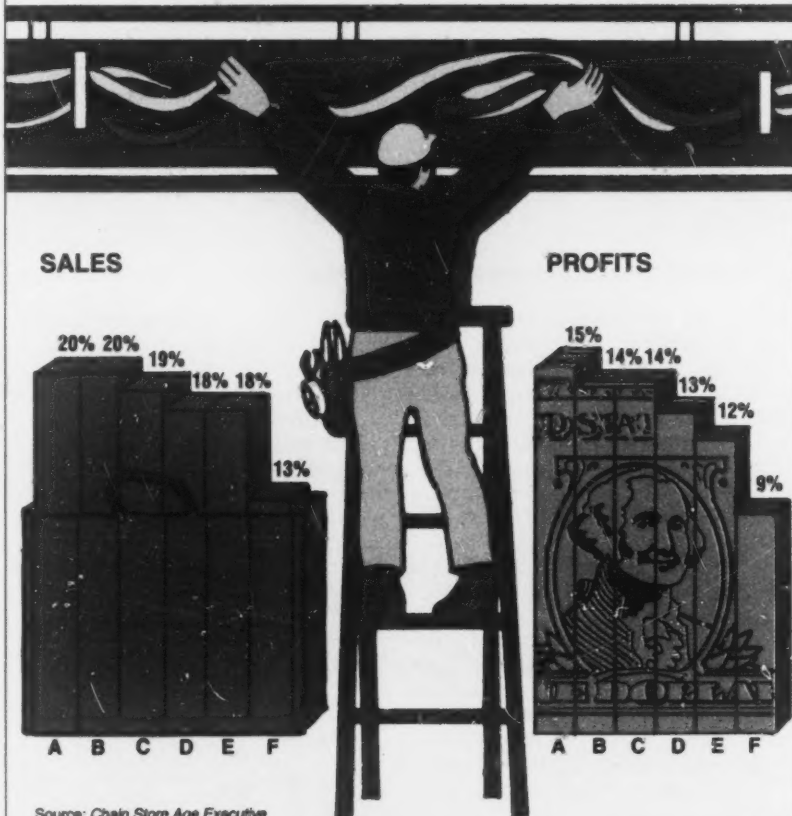
Adams Drug is adding 30 to 40 new stores in 1986 to its current base of 417 units.

The survey looks specifically at remodeling activity in the following retail categories: discount/mass merchandise chains; department stores; supermarkets; drug stores; apparel specialty stores, and home centers. Each of the chains included in the survey is in the top 100 by volume in its merchandise classification in the United States.

The average square foot cost of a retail remodel was \$23 in 1985, but ranged all the way from a low of less than \$5 to a high of more than \$50.

Store planners point out that the inflation rate remains fairly low (estimated at 3.9%) and therefore there

Sales, profits increases after remodeling



Source: Chain Store Age Executive

REMODELING GENERALLY RESULTS IN IMMEDIATE HIKES IN BOTH SALES AND PROFITS. CATEGORIES: (A) SUPERMARKET; (B) DISCOUNT/MASS MERCHANDISER; (C) HOME CENTER; (D) SPECIALTY; (E) DEPT. STORE; (F) DRUG.

shouldn't be major variations in construction costs this year.

The projected remodeling percentage becomes even more impressive when applied to the entire U.S. retail industry.

According to the 1985-86 *Directory of Leading Chain Stores in the United States*, published by Lebhar-Friedman, there were 6,436 retail chains, excluding restaurants, that operated 241,951 stores last year. If the 91% figure is applied to this group, this translates to over 5,850

retail chains planning to undertake remodeling projects in 1986.

The major reason for the willingness of retailers to invest in such remodels is the increased sales that are generated as a consequence. The survey indicates the following average sales increases: 20% generated by supermarket remodelings; 20% by discount/mass merchandiser remodelings; 19% by home center projects; 18% each by apparel specialty and department remodels; and 13% by drug store remodels.

Ceilings top longevity list

It may be because no one walks or leans on them, but ceilings have the greatest longevity among specific store areas, according to a survey of store planners and designers.

Ceilings, the participants note, last an average of almost 13 years before remodeling or replacement is needed. Interior furnishings have an average lifespan of 9.2 years, followed by signage with 8.6 years, and floors and/or carpets, 8.3 years.

The discrepancy in average lifespan between ceilings and other interior elements described above may be a bit understated as an additional 17% of respondents report

that the ceilings will last indefinitely.

Other noted differences by trade classification are as follows:

- Interior furnishings at apparel specialty stores need replacement significantly more often than do those at any other type of establishment.
- Floors and carpets need replacement most frequently at apparel specialty and department stores, and least frequently at supermarket and drug chains.
- Signage lasts longer at drug, supermarket and apparel specialty stores than at discount/mass merchandisers, department and home centers.

Profit increases ranged from 9% for drug chains to 15% for supermarkets. Those achieved by discount/mass merchandisers and by home centers were both 14%. The apparel specialty chains generated profit increases of 13%, slightly higher than the 12% generated by the department stores.

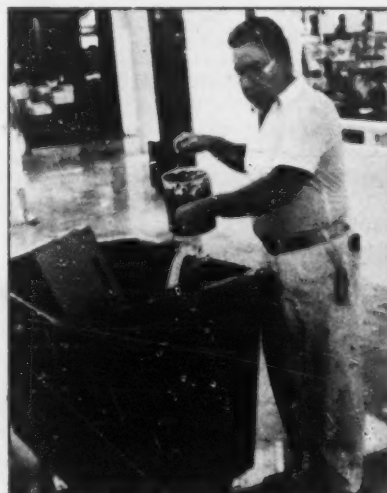
Among other findings of the study are the following:

- Respondent chains expect to remodel an average of 16 units in 1986, compared with 14 in 1985.
- Expanded remodeling activity in supermarket, apparel specialty and home center chains will primarily be responsible for the projected aggregate increase in remodeled units with 29 remodels scheduled for apparel, 26 for supermarkets and 12 for home centers.
- The proportion of chains planning remodeling for 1987 (75%) is substantially lower than the corresponding proportion for 1986 (91%).
- For the second year in a row, store planners express the opinion that consumers would rather shop at stores featuring less ambience and lower prices than expensively-decorated, higher-priced stores.
- Remodeling is typically completed "all at once," according to 62% of the respondents, rather than in phases, as indicated by 31% among all but the department store chains.
- In contrast, 60% of the department stores say they complete remodeling projects in sequential fashion.
- In 52% of the chains surveyed, the remodeling task is the exclusive re-

sponsibility of an in-house department; the remaining chains utilize external services either exclusively (31%) or in conjunction with in-house capabilities (17%).

Reasons for remodeling specific stores are varied, ranging from age of the store (28% of the respondents) and condition (20%) of the facilities, and the desire or need to upgrade (14%) or improve the esthetic appearance (20%) of the stores. Sales growth (22%) and profit potential (18%) are also mentioned by respondents.

Other factors cited as reasons for undertaking remodeling projects include: market conditions, potential/demographic trends (18%); competi-



MALL FACELIFTS: SPURRING 22% OF SURVEY RESPONDENTS TO REMODEL

tion (17%); enhancement of merchandise presentation/launch new merchandise/exploit merchandise trends (12%); reallocation of departmental space/change layout (12%); change in strategy, concept, target market (11%).

The decision to remodel is rarely made due to a single factor, as James H. Fowler, assistant vp-facilities planning for Perry Drug, points out. For example, in some cases his company schedules a store for remodeling when space is vacated adjacent to a store that is currently too small. Or there are instances when the existing store is too large and Perry decides to carve out part of the space for another division—auto parts, for example.

Changes in the methods of merchandise presentation are also the impetus for a remodel, he adds.

The major reasons remodelings are undertaken also vary somewhat in relation to different retail classifications. For instance, home center chains are least likely to mention the age or condition of the store as a primary reason for a remodel. They are most likely to be responding to market conditions and changing demographic trends in undertaking such a project.

Discount/mass merchandisers appear less concerned with upgrading and visually improving their facilities than those involved in other areas of retailing.

Department store chains are more likely than others to consider the enhancement of their merchandise presentation in their remodeling decisions.

Analyzing the total survey population, a total of 68% of the respondents indicate that the potential for attracting a broader customer base is extremely important in the decision to remodel, and 53% say creating a new look ranks high on the list of reasons. Remodeling by competition is mentioned by 41%, and remodeling of a shopping center or mall is cited by 22%.

However, analysis of the data also shows that a large portion of the respondents plan to open one or more stores this year.

Specifically, 30% of discount/mass merchandise chains, 60% of the supermarkets, 44% of the drug chains, 33% of the apparel specialty chains and 37% of the home centers plan to open between four and nine stores before year-end. In addition, 53% of the department stores report plans to build one to three stores. ■

ANALYSTS CHERRY PICKING RETAIL STOCKS EVEN THE ECONOMISTS CAN'T AGREE ON WHAT LIES AHEAD IN 1986

Collapsing oil prices, projected lower interest rates, lower inflation and rising consumer discretionary income all seem to bode well for retailing in 1986.

However, not everyone seems to agree on the direction of the economy. *BusinessWeek* was bullish in the same week that *Fortune* was bearish.

"The outlook for the new year is suddenly a lot different from what most forecasters predicted a couple of months ago. The economy is stronger and shows signs of climbing more steeply," wrote *BusinessWeek*.

In the same week and about the same economy, *Fortune* wrote: "Many economists expect the momentum [of 1985 consumer spending] to last into early 1986—but don't bet on it. Despite that spree, purchases were actually down a touch in the fourth quarter as a whole. With savings low and indebtedness high, consumers are in no shape to keep on buying heavily."

Within the framework of this mish-mash, some Wall Street analysts are recommending a fistful of retail stocks for purchase while others grudgingly give the green light to just one stock in a particular retail category.

For instance, Susan C. Schmierer, a retail analyst for L. F. Rothschild, Unterberg, Towbin specializing in supermarket stocks, reached into her grab bag and could come up with only one supermarket chain to recommend as a buy: Bruno's, a Birmingham, Ala.-based chain of 94 food and combo food and drug stores.

The reason for not recommending additional companies, she says, is that there is a heightening of competitive pricing under way in the supermarket industry. For a couple of years, this price competition had been decelerating. Bruno's is being recommended as a growth stock. Unlike many other supermarket chains, it is a dominant factor in the areas in which it operates stores. The chain posted earnings of \$24.6 million, or 69¢ a share, on sales of \$886.7 million in the fiscal year ended June 30, 1985. Schmierer is projecting earnings per share of 85¢ in the current fiscal year.

Rick Nelson, an analyst for Duff Phelps, says that "Relative to other drug store chains, we are recommending Revco, but we are recommending market waiting at best." He

says that Duff Phelps has some concerns about the drug store industry, including competition from the deep discounters, and their ability to cope with disinflation.

He estimates earnings for the fiscal year ending around the end of May will be about \$1.65 a share, against \$1.55 a share in the year ended June 1, 1985. The company reported fiscal 1985 earnings of \$1.06, which included a 49¢ a share inventory writedown

earnings ratios are likely to follow.

Relative momentum of department stores has deteriorated sharply over the last few months, says Edelman. Those stocks are becoming more attractive on a near-term basis.

"Average P/E multiples have generally tracked in line with return on equity," he says.

"Our assumption of target price 12 to 18 months out are based on a 14 P/E for the Standard & Poor's 500 on 1986 earnings. Thus, based upon a 9% total return for the overall market potential appreciation plus yield, Associated Dry Goods, Dayton Hudson and Zayre are attractive and are recommended for purchase. K mart and J. C. Penney also stand out, but we carry a much lower confidence factor on those estimates." He estimates earnings per share for the current fiscal year of \$3.50 for ADG and Dayton Hudson, \$4.30 for Zayre, \$4.50 for K mart and \$6.25 for Penney.

In the specialty store field, Edward Johnson of Johnson Redbook Service, a division of Prescott, Ball & Turben, is recommending the purchase of Charming Shoppes and The Limited. Among department and discount stores, he's recommending the purchase of stocks of Ames Department Stores, Zayre and Dayton Hudson, which, he says, is on the rebound.

Bernard Sosnick and Mary Kilbride, also of L. E. Rothschild, are recommending the purchase of Allied Stores stock. "Allied is a survivor in the department store field," they say, "and is growing stronger, despite a low-keyed, low-risk approach to business."

The company has several attractive and expanding specialty retailing operations (Brooks Brothers and Ann Taylor among others). Over the next five years, several weak divisions probably will be eliminated, while stronger ones should become more numerous through internal developments and acquisitions.

"This transformation, along with the growth of specialty retailing operations, should enable Allied's stock to sell at parity with its peer group, instead of at its traditional discount. If our perceptions about Allied's prospects for the next few years are correct, we believe the stock will perform well relative to the general market."

	Prev. est.	New est.
Allied Stores	12%	9%
Ames Dept. Stores	22	29
ADG	15	12
Carter Hawley Hale	12	9
Dayton Hudson	18	13
Federated Dept. Stores	12	9
Jamesway	29	18
K mart	12	9
May Dept. Stores	12	9
Mordorff	29	18
J. C. Penney	11	9
Price	30	28
Wal-Mart	25	23
Zayre	28	18

Source: Dean Witter Reynolds

of video game cartridges, computer peripherals and other goods purchased by a subsidiary of the firm.

Jeffrey B. Edelman, vp at Dean Witter Reynolds, says that department store retailing should benefit from a lower inflationary environment. The growth rates of the chains have slowed, but he forecasts them to exceed the growth of the overall economy. Notes Edelman:

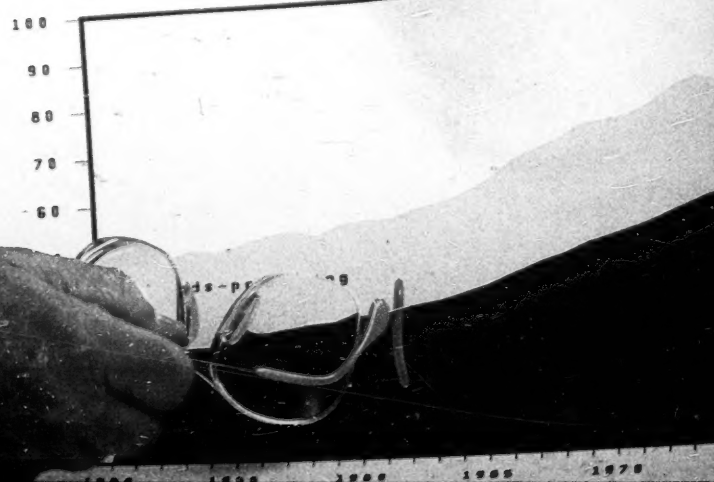
- Consumer discretionary income should be on the rise.
- Retailer cost pressures are likely to ease.
- Higher selling prices could close the inflation gap.
- Store expansion is slowing and asset productivity is increasing.
- Profitability should rise and price/

CS 50-4
ICSC ANNUAL CONVENTION
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The Hourly Labor Force: **And Then There Was None**

Janet L. Norwood,
Commissioner for
Bureau of Labor Statistics

Job growth has been concentrated
in the service-producing sector

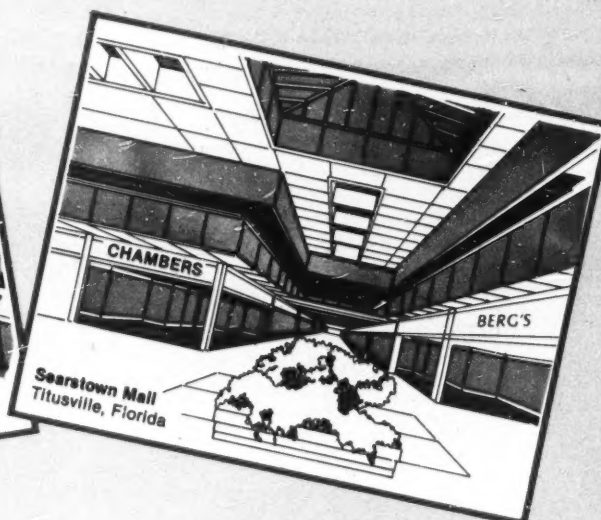
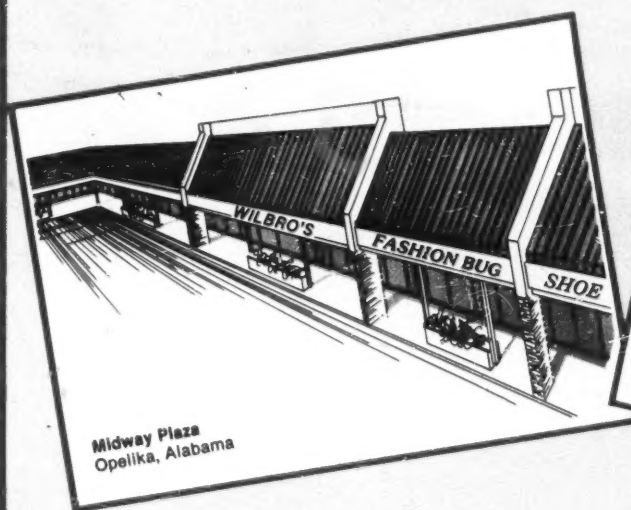


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Brockton Plaza
Brockton, Massachusetts
Dunmore Plaza
Dunmore, Penna.
Park Plaza
Ft. Oglethorpe, Georgia
Kingston Plaza
Kingston, Penna.
New Loudon Center
Latham, Colonie, N.Y.
Luzerne Street Shopping Center
Scranton, Penna.
Madaira Plaza
Reading, Penna.
Mark Plaza Shopping Center
Edwardsville, Penna.

Mountainville Shopping Center
Allentown, Penna.
Normandale Shopping Center
Montgomery, Alabama
New Smyrna Beach Shopping Center
Smyrna Beach, Florida
Newberry Plaza
Newberry, S. Carolina
Martintown Plaza
N. Augusta, S. Carolina
Midway Plaza
Opelika, Alabama
Ames Plaza
Shamokin, Penna.
Monroe Plaza
Stroudsburg, Penna.
Troy Plaza
Troy, N.Y.
Plaza #6 Shopping Center
Tunkhannock, Penna.

Enclosed Malls

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Moosic, Penna.
Route #6 Mall
Honesdale, Penna.
Plaza #422
Lebanon, Penna.
Ledgewood Mall
Ledgewood, New Jersey
Plaza #15
Lewisburg, Penna.
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Pittston Township, Penna.
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LABOR: AND THEN THERE WAS NONE

EPIDEMIC SHORTAGE OF HOURLY WORKERS AFFLICTING RETAIL INDUSTRY



Hiring tables vie with merchandise displays in Bradlees New England discount stores.

Job fairs to entice potential employees are held at the Tyson's Corner center in Fairfax, Va. They are organized like trade shows with each retailer occupying a booth.

A Winnebago camper doubling as a mobile employment office cruises Washington, D.C.-area schools scouting students for part time work at Giant Food, the Landover, Md.-based supermarket chain.

Despite the estimated 8.5 million people currently seeking work, a labor shortage is afflicting retailers. It is already nearing epidemic proportions on the East Coast and seems to be moving westward.

More specifically, the New England states, metropolitan Washington, D.C., northern and central New Jersey and the Atlanta environs are cited as the tightest of the labor markets. Several retailers also have reported a slight tightening in both the Midwest and on the West Coast.

"It's just starting to hit Minneapolis . . . I anticipate it's going to grow and reach the Midwest in about a year," speculates Thomas Harms, director of human resources for Dayton Hudson Department Stores. (Dayton Hudson raised its hourly wage twice last year and extended its discounts to include part-timers.)

Says a West Coast-based retailer,

"I see no way, facing the numbers, five years out this shortage is not going to be a more significant problem."

Already, the tight labor market has forced many retailers to resort to creative, if not costly, methods of recruiting and retaining hourly workers. In many cases wages have been raised or incentives offered in order to entice a limited labor force to man the sales floors of retail stores.

The heart of the problem is reflected in three statistics that do not bode well for the hiring of retail hourly employees (see accompanying charts):

- The number of labor force participants in the 16 to 24 year old age group will continue to diminish through 1995;
- The retail industry will be the second leading creator of new jobs through the next 10 years;
- Wages for retail non-supervisory personnel are the lowest among non-agricultural industries.

The brouhaha over the numbers stems from a characteristic of the retail labor force atypical of most other industries: "The profile of retail workers in general is much younger than other industries or the total of all industries," explains Janet L. Norwood, Commissioner for Bureau of Labor Statistics (BLS). "In fact, almost one-third of the workers in retail trade are 16 to 24." Specifically, 16 to 19 year olds account for about 8.4% of the work force in retail, vs. 6% for all

industries; 20 to 24 year olds make up 21.9% of the retail workers, as opposed to 13% for all industries.

As top dog at the BLS, Norwood has first-hand knowledge of the numbers that are cause for concern for many retailers. Given the bent of retailers to go after young, cheap labor, she admits, the future—as well as the present—does not look good.

The effects of this diminishing young labor pool—which has been shrinking since around 1979—were first felt about a year ago by the fast food industry. That industry so far has been bearing the brunt due to its low wages and rapid expansion rate. Retailing, however, is rapidly emerging as the second most affected industry, largely because it competes with fast food operators for hourly workers.

"Recruiting has been a problem over the last five years, but it's intensified," reports Richard Pires, Bradlees director of executive recruitment and employment. The chain has had difficulties filling vacancies that can sometimes go as high as 40 positions out of a total of 200 in a store.

Like many other retailers in New England, Bradlees is van pooling people to its stores from surrounding locations. Some of the chain's workers are now riding an hour or more on company-provided transportation—and are on the clock for the commute.

"We try to recruit groups with a high unemployment rate . . . last

Christmas we worked with the NAACP recruiting 300 people from the Boston inner-city and vanning them to our suburban stores," Pires says of the chain's efforts.

The in-store hiring tables target housewives who have considered working but not yet pursued a job. "There's a sense of immediacy to having hiring tables; they [potential workers] can fill out an application and be interviewed on the spot, so it increases the chances of people's applying," Pires explains.

Others having hiring difficulties in New England are Hannaford Bros. supermarkets and Filene's Department Stores (which reportedly has been van pooling for months.)

While Malcolm Sherman, president of Framingham, Mass.-based Zayre Stores, declines to comment on the hiring situation, the chain reportedly has run a direct mail campaign seeking New England high school students for accounting clerks' jobs.

The problem has affected specialty stores as well. The Gap, a nationwide chain, first felt the pinch in Boston, where it has:

- increased its classified advertising;
- increased its hourly wage;
- begun recruiting "eligible-looking customers";
- offered incentives such as gift certificates to employees who recruit other workers;
- started "being nicer to its employees," says John P. Carver, corporate senior vp-human resources, The Gap.

The chain, he says, has now started to feel a similar tightening in Washington D.C.

Giant is one of many Washington area retailers vying for a limited labor pool. At a starting (union) wage of \$3.72 an hour, it is having a tough time of it, particularly in the wealthier Washington suburbs. "The young kids don't want to work for \$3 or \$4 an hour. Sometimes their allowance is more than what they'd make from us," says a company spokesman, only half joking.

The competition for labor on the East Coast has reached as far south as Atlanta. Recently, reports have surfaced saying Atlanta retailers have resorted to giving hiring bonuses to new employees. That is, if a new employee stays 30, 60 or 90 days, he will be awarded as much as a few hundred dollars.

"The problem with the bonuses," says one retailer, "is that jobs are so plentiful, the employee stays, col-

lects the bonus and within a month or so leaves to take another job. All the training is wasted."

John Weitnauer, ceo of Richway, Federated's Atlanta-based discount division, reports that in some cases the chain has upped wages. "... we're also trying to show our people there's a career path in retailing . . .

and we're making a concerted effort to promote from within."

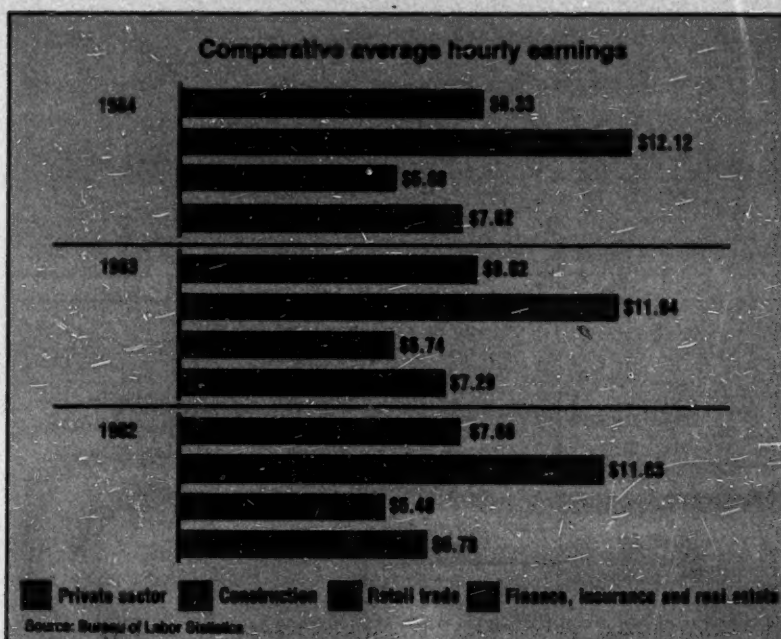
Despite these reports on recruiting and retention travails, there is no way to quantify the degree of difficulty retailers are having. The BLS does not compile statistics on job vacancies because of the cost (approximately \$20 million) and the level of difficulty involved, Norwood explains.

However, a good estimate on the level of unfilled jobs can be made by looking at unemployment rates in specific areas of the country. The lower the rate, the more job vacancies. For example, compared with a national unemployment average of 7.3% (as of January 1986, the latest figure available), the Boston metro area stood at 3.3%, metro Washington, D.C., at 3.8%, and metro Atlanta at 4.4%.

Other than low unemployment, there seems to be no sweeping commonality among those areas experiencing difficulty.

Complicating the predictability of the labor shortage's progress are myriad other factors, point out both Norwood and most retailers: Will the continued influx of women into the labor force offset the decline in the 16 to 24 year olds? What is the future of the predominant industry in an area and how much competition for workers will it present? What effect does the unionization of a retailer and the resultant long-term stability of wages have on that retailer's ability to attract

Lately, Janet L. Norwood, Commissioner for Bureau of Labor Statistics, gets a lot of requests to address the labor shortage. "It's better than having an industry with declining employment," she says knowingly. "Nobody ever thinks about that; that's an important part of the equation, too."



Washington, D.C.: Taking an aggressive stance

Despite the number of retailers affected by a growing labor shortage, there is only one area that reports a group effort to recruit workers. Washington, D.C., retailers are seeking relief under the auspices of the Greater Washington Board of Trade, a regional chamber of commerce, whose members include 150 retailers operating more than 1,000 stores.

"We now have efforts under way to respond to two problems for which the solution is the same," reports Garry Curtis, director of the board's retail bureau. "One problem is clearly a labor shortage of entry level, unskilled workers; the other is continuing pockets of unemployment in this region."

Working through the Private Industry Council and using public training funds, the board has set

up pre-employment training classes to educate and place the "hard core unemployed." Courses focus on such areas as proper work attire; punctuality; the expectations of employers; and the paybacks and positive benefits of working.

Curtis, who is familiar with the Washington employment scene, reports that retailers are using aggressive recruiting hiring tactics, such as:

- The placing of employment ads by Hecht's department store in the Style section of the *Washington Post* to lure housewives;
- recruiting at senior citizens clubs and agencies;
- recruiting teachers as well as students for part-time jobs;
- the sponsorship of job fairs by shopping centers, such as Tyson's Corner, for mass recruiting.

workers? How will the leveling off in the demand for part time work affect retailers who rely heavily on part-time staffers?

It is these other factors that will hasten the spread of the labor shortage into the more depressed Midwestern region, as Dayton Hudson's Harms predicts.

Detroit, he says, will be a target be-

cause the area is undergoing a turnaround (see story this issue). The leading industry there, auto manufacturing, has called back many workers. Those who haven't gone back to work, he continues, have moved, found other occupations or are unwilling to give up public assistance to switch to a low paying retail job.

When it comes to speculating what

the long-term, overall effects of fewer workers will be on retailing, no one is eager to forecast. Nor can anyone anticipate what effect automation and retail technology will have on retailers' demand for labor.

Venturing a guess, Carver states, "If retail requirements are growing and the pool of applicants is diminishing, then it's pretty obvious what's going to happen—you're probably going to get wage escalation—you'll pay more for the good people. You might also look at the people you're trying to attract and change your [service] standards or look for different labor pools you haven't tapped yet."

At this juncture, there are no statistics to quantify what increased payroll and recruiting cost are doing to the bottom line, if anything. Alice Bird McCord, who oversees planning and research at the National Retail Merchants Association (NRMA), suggests that some retailers may be hiring fewer people to staff the sales floor or substituting technology for labor. In either case, given the decreased numbers of workers, wages could be raised without any direct effects on payroll. (The NRMA is currently compiling data on payroll costs that will be presented at its fall human resources conference.)

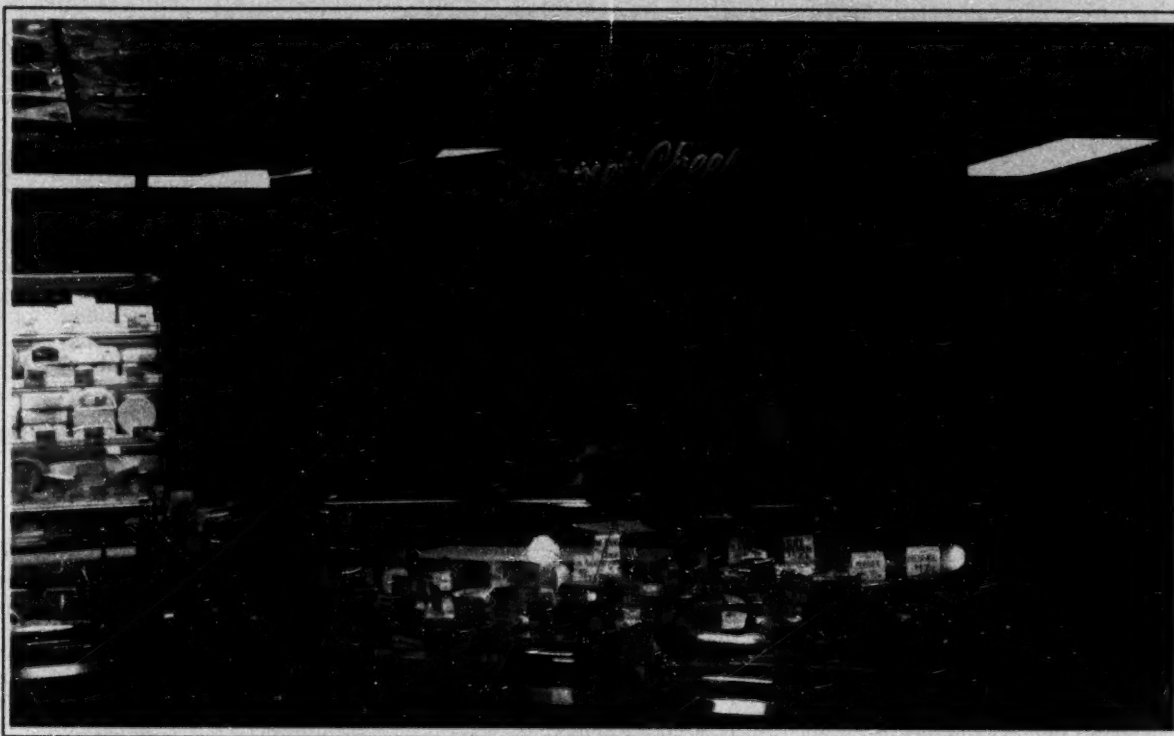
By all accounts, say retailers, increased wages will not mean increased prices. If push comes to shove, says one retailer, he may explore the option of eliminating a layer of management to compensate for increasing hourly wages.

Automation, depending on the level already implemented, is another frequently mentioned option. "We would seek to get higher productivity out of the workers we already have," says Dayton Hudson's Harms. "We'd offer incentives to motivate people."

"If I were a major chain like Macy's or Federated, I'd be spending an awful lot of money on trying to think about [attracting people]," says one retailer. "I'd also be spending a tremendous amount of money on thinking of new ways to present merchandise and how to make the stores more effective in a self-service way."

This is the time to train customers to be both more self-service oriented and more accustomed to dealing with in-store sales devices, like video terminals, he says. "Now is the time to be testing all these things, while you still have—relative to five years from now—lots of people on your selling floors."

—Holly Klokis



GIANT FOOD: APPEALING TO AFFLUENT CUSTOMERS WITH SPECIALTY SERVICES

SPECIALTY APPROACH GAINING MOMENTUM

SURVEY SHOWS SUPERMARKETERS TURNING TO DEPARTMENTALIZATION

Customers have come to expect to find specialty departments when they shop at Giant Food.

That's been true ever since the early days of the Landover, Md.-based supermarket chain, since it made its Heidi bakery products into a household staple, serving the needs of its quickly growing marketplace.

Through the years it has continued this tradition of service, with the departments found in its stores consequently becoming more sophisticated as the affluency of its customers climbs.

In its Rockville, Md.-prototype store, for example, specialty departments run the gamut from bakery to gourmet cheeses to service seafood to full-scale floral, plus a host of others. This is service—and this is specialization—to the nth degree.

Giant Food isn't alone in realizing that the specialty approach to retailing can work for the supermarket industry too—just as department stores have found considerable success with their boutique approach to merchandising.

For example, Norfolk, Va.-based Farm Fresh (*see story this issue*) has gone so far as to devote an average of 30% of the space in all of its stores to specialty departments. There are often as many as 20 of these departments in a single store.

While many supermarket operators may not be as committed to such departments as these two East Coast chains, there's no doubt that specialty departments are increasing in popularity. Savvy operators are creatively installing many such departments in an all-out bid to distinguish themselves from other chains in the market area. They are also realizing that the presence of such departments can be a powerful draw for customers—sometimes even outweighing the low-price appeal of a nearby competitor.

A recent study conducted by *Chain Store Age Executive* confirmed this trend. The primary areas of investigation include the following:

- A detailing of the specialty departments currently utilized by the chain, as well as those planned for inclusion

in the coming year;

- Specialty department space allocation trends;
- Estimated weekly sales and gross profit margins achieved by the specialty departments;
- Chain demographics.

Specifically, the results indicate that supermarkets are currently devoting an average of 21.4% of their selling space to house a wide variety of specialty departments. By year-end, this number is expected to rise to 23%.

To state this another way, from 1984 to 1985 those chains participating in this survey report that they increased the amount of selling space set aside for specialty departments by 11.4%. From 1985 to 1986, this trend slowed somewhat, but still space allocations increased by an additional 7.6%.

The most prevalent such department is unquestionably the in-store bakery. Of the chains participating in the survey, 93% report that they have a bakery in one or more of the stores they operate (but with no further ad-



A&P: RECOGNIZING THE IMPORTANCE OF THE IN-STORE BAKERY DEPARTMENT

ditions planned for the current year).

Second in popularity but gaining on the in-store bakery is the gourmet deli department. While 83% of the chains report that they have such a department in at least one of their stores, 38% expect to have at least one up and running by the end of this year.

Another department clearly growing in number is service seafood. Seventy-three per cent of the chains surveyed operate at least one such department; this number will increase to 80% by the end of this year. (One of the major reasons for this increase is the trend toward including more seafood and less red meat in menu planning.)

Other departments showing significant signs of popularity include the following:

- florist; 65% of the respondents surveyed report having this department in at least one of their stores;
- bulk foods; 63% run at least one such department (However, supermarket operators indicate a trend toward scaling down this department.);
- service meat or butcher shop; 60% report running such a department (The number is expected to climb to 65% by year-end as consumers respond to more service being offered—providing freshness and choice in meat products.);
- pharmacies; at least one operated by 53% of the survey respondents, and 60% expect to operate one or more before year-end.

The department, though, that is gaining the most momentum in supermarkets is related to the booming video-rental business, according to a number of operators. While presently only 3% of the chains surveyed operate such a department, these oper-

ators believe the number will rise quickly as supermarkets find ways to cash in on this craze.

However, as increasingly prevalent as such departments are becoming among supermarket chains, the survey also reveals that not any one department is evident at all of the su-

	% of chains having department at . . .	
	At least one location	More than 50% of their locations
In-store bakery	83	45
Gourmet deli	83	45
Service seafood	73	23
Cheese shop or nondeli gourmet foods	65	10
Florist	65	35
Bulk foods	63	18
Service meat or butcher shop	60	18
Pharmacy	53	18
Frozen chicken	5	3
Candy	5	—
Videos	3	—
Salted bar	3	3
Cosmetics	3	3
Natural foods	3	3
Nutrition shop	3	—
Pizza shop	3	—
Flower shop	3	3
Bank	3	3
Video equipment	3	—
Appetizing department	3	3

permarkets within the given chains.

In fact, less than half of all the chains reported having any particular specialty department at more than 50% of their individual supermarket locations.

Even in the case of in-store bakeries, only 48% of the chains surveyed report having these located in more than half of their store locations. Gourmet delis are found in more than 50% of the locations of 45% of those surveyed, with service seafood dropping down to being present in more than half of the locations of only 25% of those surveyed.

It is interesting to note, though, that of the 65% of the respondents reporting operating florist departments, 35% have them present in more than half of their stores (see accompanying chart).

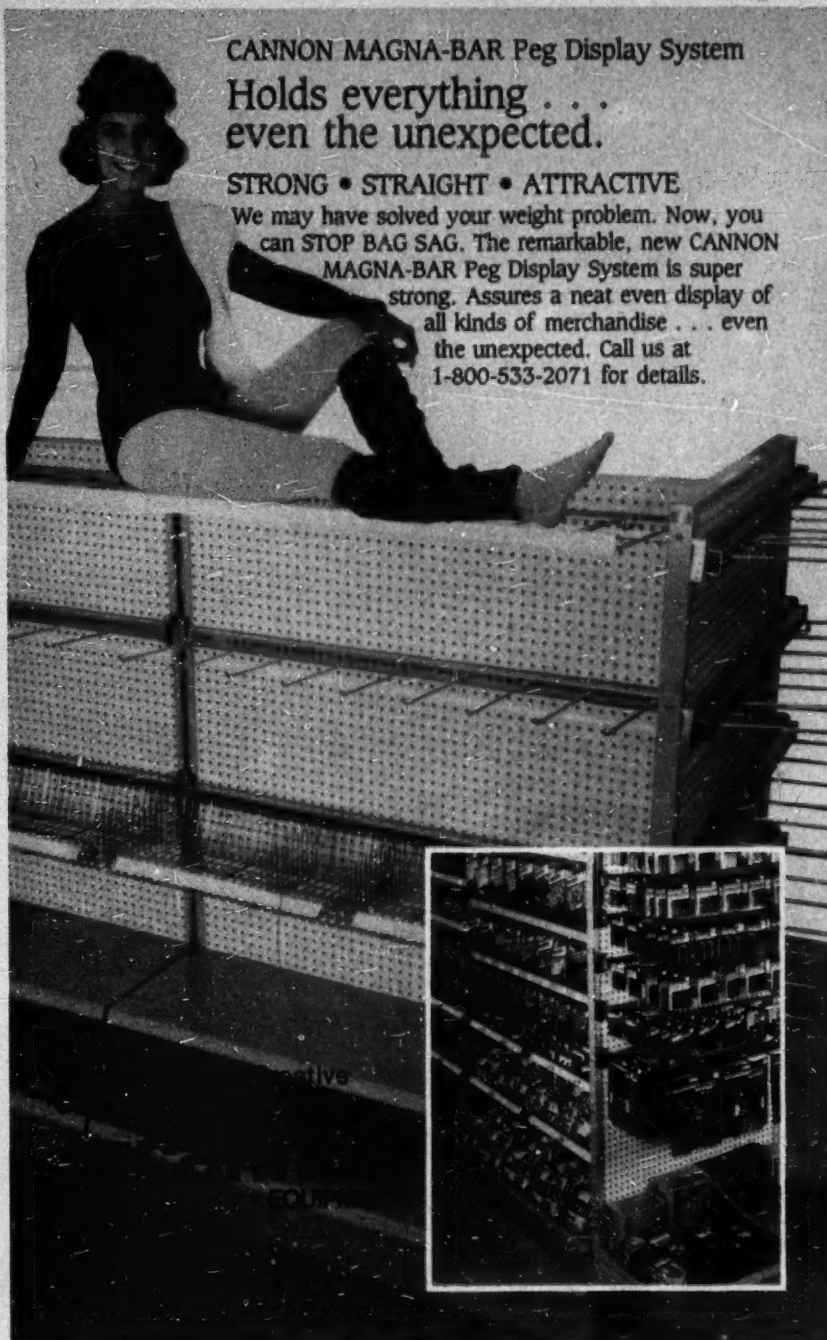
In selecting the survey sample for this research project, both first-tier chains (in terms of annual dollar volume) and second-tier chains were included. The results show that, in general, the higher dollar volume operations are more likely than the second-tier chains to have a variety of specialty departments in their supermarkets. Specifically, with the exception of in-store bakeries, each selected department is found more often at chains ranked in the top 100 than at those ranking lower in dollar sales volume.

The gap is particularly large in respect to florist departments, found in at least one unit of 85% of the top 100 chains included in the survey, but falling to 45% in the case of the second-tier chains.

With respect to pharmacy departments, the difference is also significant, with 75% and 30% respectively reporting that they currently operate at least one of these departments. However, here the gap appears to be narrowing rapidly with 15% of the second-tier chains in the survey expecting to add at least one such department before this year is over.

In general, though, the majority of both first- and second-tier chains surveyed do not expect to create any new types of specialty departments not currently found somewhere within their chains, instead indicating that they prefer to devote their attention to expanding existing concepts to more store units within their chains (or expanding departments already in place in selected units).

Specifically, 80% of the first-tier chains and 70% of the second-tier chains do not plan to begin operating

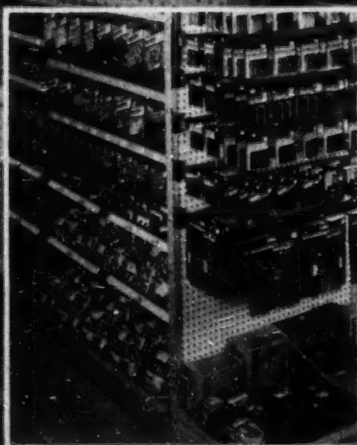


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Small Centers . . .

Small center development is still the most active area of the shopping center industry. Find out why the trend continues, and what it represents in terms of retail expansion opportunities in a special look at small center construction activity appearing in the July issue of *Chain Store Age Executive*.

FEATURE

Presence of departments by end of 1986

	Chain dollar volume	
	Top 100	101-200
Gourmet deli	95	80
Florist	80	45
Service meat or butcher shop	75	55
Pharmacy	75	45

Source: Chain Store Age Executive research

any new type of specialty department in 1986.

Yet, specialty departments are extremely likely to be an ever-more important method of merchandise presentation as they yield high gross margins for their operators. The survey results indicate, for example, that with the exception of the service meat or butcher shop operations, these departments generate profit margins substantially higher than the reported average of 20.1% for the total store.

In keeping with their overall popularity, in-store bakeries are shown to be by far the most profitable of these departments in terms of gross margins, coming out at approximately 47%. They are followed by cheese shops/nondeli gourmet departments, yielding 39%; florist, 37%; and gourmet deli, 36%.

There is also some evidence that many of the specialty departments outperform the stores' average in terms of weekly sales per square foot of selling area. In particular, while total supermarket selling space generated on average weekly sales of \$11.60 per square foot at a typical supermarket in the chains surveyed, cheese shops or nondeli gourmet foods generated an average of \$27.50, followed by pharmacies, generating an average of \$26.40.

However, sales generated by in-store bakeries generated a slightly lower average of \$11.40 per square foot.

The annual dollar volume of the chains surveyed in this research project ranged from \$125 million to over \$7 billion, reflecting a median annual volume of \$326 million. The median number of units operated by the respondent chains was 44.5. ■

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Chain Store Age EXECUTIVE

with Shopping Center Age

The newsmagazine for retail management

June 1988

**Insurance costs:
A bad break
for retailers**



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A BAD BREAK FOR RETAILERS

As insurance costs skyrocket, operating expenses are going into a tailspin. Will the impact be so great that profits will nosedive? The charge for primary casualty coverage is the only insurance cost retailers can hope to control. There's not much else they can do to stop this upward spiral..... 14



AMERICAN CAN: CONTINUING ON A RETAIL ROLL

Aggressive expansion of its specialty retail group is a key component of this conglomerate's long-range strategic plan. 11

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SHOPPING CENTER AGE



URBAN CENTERS: NEW RETAIL OPTIONS

Developers hope to lure today's generation with a "new city" concept. They are creating master-planned projects combining retail, office and residential space into a single entity. Customers enjoy the convenience of being able to live—and to shop—near where they work. 23

Company executives have three main causes of concern:

- the cost increases are dramatic—as recently as 1983, retailers were spending 34¢ per \$100 in sales for insurance coverage. Today that figure is likely to be 50¢ or 51¢;
- the scope of coverage has decreased dramatically, thereby exposing corporate assets and earnings to costly lawsuits; and,
- closer to home, the cost of directors and officers liability insurance has risen six- or seven-fold, while coverage has decreased.

A limited knowledge of insurance, coupled with reports featured in the media as of late, leads one to assume that liability insurance is the sole culprit. While that may be the sexiest, most publicized issue, it is not, however, the whole story. In reality, the cost of *all* forms of insurance has gone up substantially, some to the point of

bordering on the ridiculous (*see accompanying story and chart*).

The reasons, say observers, are a combination of past and present market conditions that make for the current hard insurance market:

- several years ago when interest rates were high, insurance companies over-estimated the return that could be realized by investing premiums. It never came to pass and now they are trying to recoup their losses.
- current low interest rates don't allow for major returns, thereby necessitating higher premiums.
- a number of insurance companies have gone bankrupt or gotten out of the business; not only has competition lessened considerably, capacity has diminished.

The issue of capacity essentially means the universe of coverage dollars is governed by the amount of capital controlled by the insurance com-

panies. By law, the amount of premium an insurance company is allowed to accept is limited by its capital. Fewer companies means less capital, which, in turn, means less in premiums, which results in less financial coverage.

The bottom line: there's less insurance to be had and what's available has already become more expensive. Many observers, however, debate whether enough insurance companies have actually pulled out of the market to impact costs to the degree they currently have.

This current tight market for insurance is a whole new ball game for retailers, who are traditionally considered tough insurance negotiators who usually get their way. In the past, J. C. Penney, like many retailers, had its choice of what insurance company it wanted as its carrier; it could dictate terms and conditions and ne-

Insurance costs: Where does the money go?

The reason retailers are being so severely impacted by high insurance increases is two-fold: Premiums for all types of insurance are increasing. At the same time, insurance companies have raised the maximum dollar amount of losses a retailer must assume for his primary casualties—workers compensation and public liability.

Only a handful of years ago, underwriters were quick to give a retailer a break. If the retailer expected to have a minimum of \$3,000,000 in primary casualty losses, he could get a policy that only held him responsible for a \$2,500,000. Competition was hot and interest rates were high. The underwriter figured he could make more than enough to offset the difference by investing the retailer's money.

Today, that scenario is rarely seen. If the retailer is likely to incur a minimum of \$3,000,000 in losses, the insurance company will charge him the full amount or close to it. The charge to service those losses has increased as well.

Additionally, smaller retailers who once were able to get guaranteed cost insurance (which typically would cost even less than 34¢ per \$100 in sales), are no longer able to do so. Under a guaranteed

cost policy, a fixed premium covers both primary casualty losses and the service fees.

Curiously, despite the media attention paid to inflated liability awards, retailers report that their primary casualty losses are about equally divided between workers

to plead their cases before the workers compensation board; in those situations the board usually grants higher awards. These factors are increasing the cost of workers compensation dramatically—as dramatically as the public liability is going up.

Insurance costs for a hypothetical \$1 billion retailer

Type of Insurance	1965*	1985**	Percentage Increase
Workers comp., public liability	\$2,500,000	\$3,300,000	28.0%
Service fee	300,000	450,000	50.0
First layer umbrella	100,000	400,000	300.0
Excess umbrella	50,000	500,000	900.0
Property	400,000	\$20,000	300.0
Directors and officers liability	25,000	150,000	500.0
Miscellaneous	50,000	100,000	100.0
Total	\$3,425,000	\$5,120,000	49.9%

*Most likely to be a cost-plus program with a built-in maximum, retrospectively rated

**Most likely to be a cost-plus program without a maximum or a maximum high enough to cover all or most losses, retrospectively rated

Source: Tillinghast, Nelson & Warren

compensation and public liability. While public liability losses have increased, so have the costs of medical expenses and lost work time payments for workers.

The increases for medical treatment has outpaced inflation. At the same time, wages have risen, meaning that payment for lost time has risen. Additionally, more injured workers are using lawyers

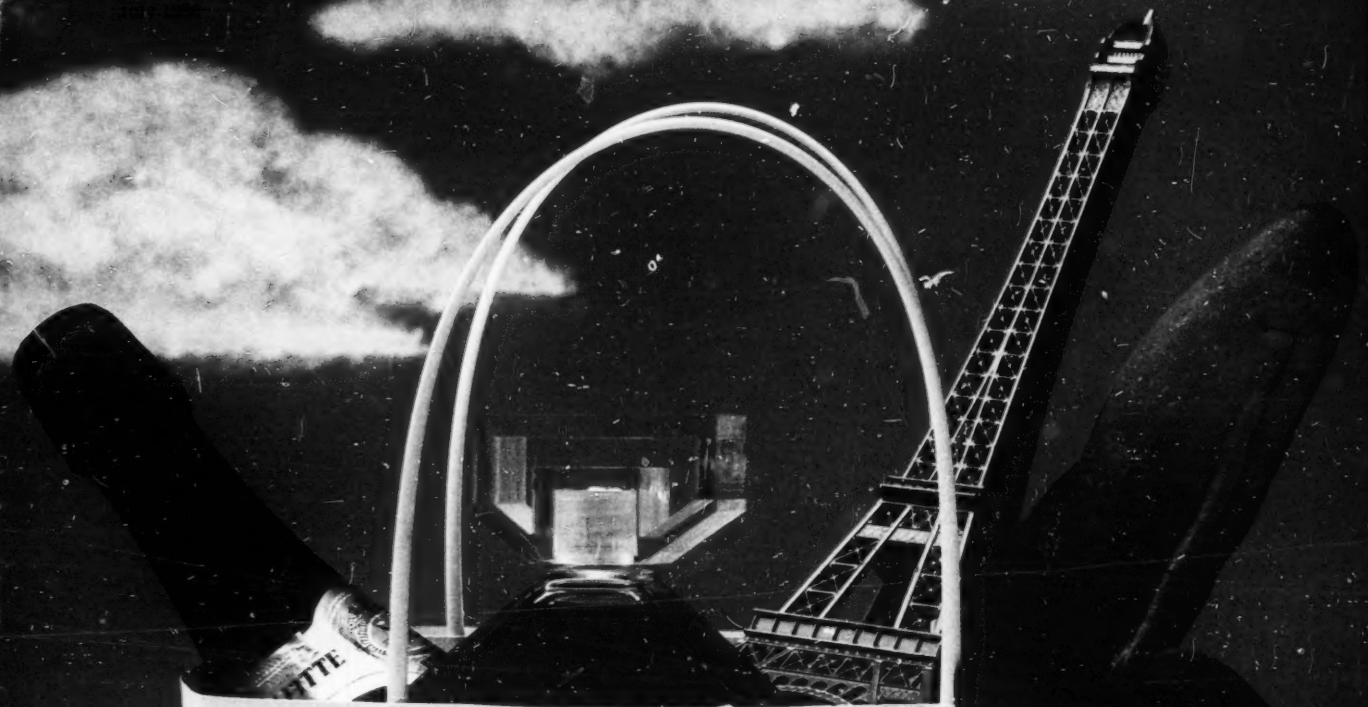
The total increases take their toll on a retailer's pre-tax earnings. A retailer doing \$1 billion in sales can expect his insurance costs to rise to approximately \$5.12 million this year. Assuming that pre-tax profits run about \$54 million, the increase represents a rise from \$3.4 million, or 6.34% of pre-tax earnings to 9.48%, or an additional \$1.7 million.

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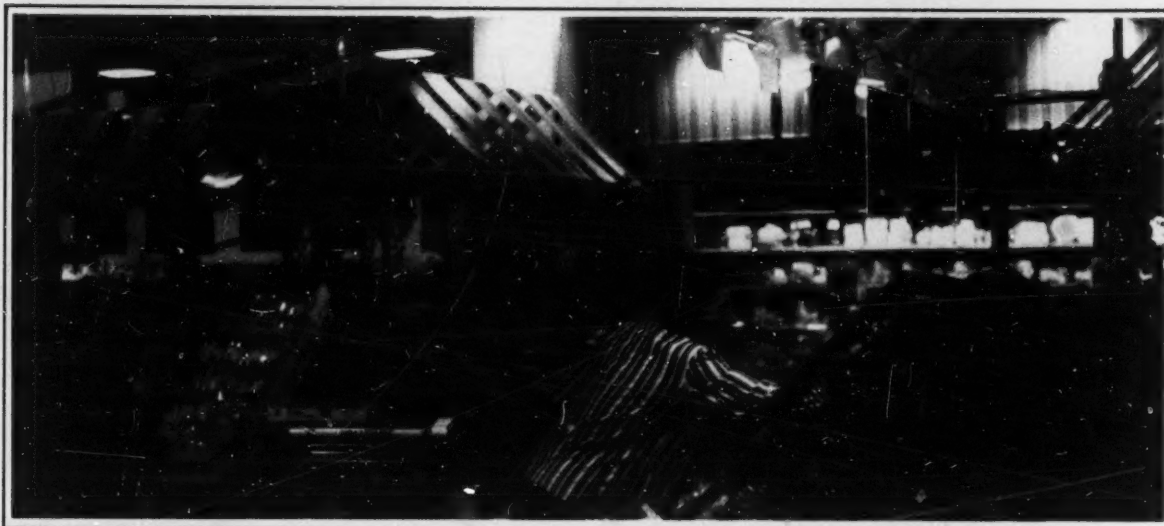
The new magazine for retail management



**Retailing
in France:**
Ooo-la-la!!

DOLLARS A YEAR (USA)

CONTENTS



RETAILING IN FRANCE: OOO-LA-LA!!!

While the hypermarkets continue as France's strongest retail force, their dominance is waning. Innovative supermarkets are competing with them in food merchandising, while savvy specialists are impacting sales in other categories. At the same time, Carrefour, the nation's largest hypermarket, is changing its own competitive strategy. 11



MARKETING: PROMOTIONAL MAGIC IS IN THE BAG

Retailers have said goodbye to the old plain brown wrappers. Instead they are using shopping bags as effective merchandising tools. 94

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DEPARTMENTS

Retail Census: An analysis of the average costs per square foot and life-spans of physical support materials is included in this annual research study by *Chain Store Age Executive*. Areas investigated include signage, fixtures, roofing, ceilings, flooring, floor maintenance, security, interior lighting, HVAC, energy management and solid waste management. 25

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SHOPPING CENTER AGE



SHOPPERS REDISCOVER SMALL CENTERS

Time-pressured consumers enjoy the convenience of fulfilling most of their shopping needs close to home. As a result, of the 2,171 centers opened in 1985, 1,831 were neighborhood centers, 322 were community-sized centers, according to International Council of Shopping Centers. . 69

RETAIL CENSUS

RESEARCH STUDY: PROOF OF RISING STORE COSTS

PRICE TAGS FOR MATERIALS USED TO BUILD STORES KEEP CLIMBING

Want to build a store? If the answer is yes, be prepared to spend a substantial amount of money.

For example, if a new department store is being planned, it's likely to be in the vicinity of 117,000 sq. ft. in size. Costs per square foot just for erecting the store shell will be about \$31.00 per square foot. The bill so far: \$3.6 million.

Then there's lighting, an investment of approximately \$1.42 per square foot; fixturing, around \$9.30 per square foot; and signage, adding another 21¢ per square foot to the bill. And the tally keeps on climbing.

Or consider another example. The tab for erecting the store shell for a 38,400-sq.-ft. home center (the average size of those built in the last year) comes to approximately \$963,800,

based on an average square foot cost of \$25.10. And, again, that's before all the accoutrements are added.

The numbers used in these examples are not arbitrary figures. Rather, they are taken from the data collected by *Chain Store Age Executive* in its Annual Retail Census.

The purpose of this census is to amass information on the average cost per square foot and average lifespan of the physical materials that combine to create the store building and contribute to the store esthetics.

Specific materials analyzed include: interior signage; fixtures; interior lighting; flooring; floor maintenance; security; ceilings, roofing; HVAC; energy management and solid waste management.

The analysis includes a breakout of the average cost per square foot paid

for these materials by each of the six major retail classifications. An average retail industry cost and lifespan for each physical support material studied is also included.

In addition, the census includes estimates of the average square footage of both existing stores and those built in the last 12 months to show the impact of these costs on capital expenditures.

While stores in some retail classifications are getting larger, others are getting smaller. But no matter which direction they are moving in, retailers are clearly devoting as much space as possible to the actual selling floor (see accompanying charts). The reason is simple: productivity must improve to cover increased costs—including those of actually constructing the stores. ■

Store sizes: Going up and going down

Apparel Specialty
Existing stores: Mean: 16,500 sq. ft.
Amount of selling space available in typical store: Mean: 13,290 sq. ft.
Size of stores opened in 1985-86: Mean: 16,900 sq. ft.
Amount of selling space available in stores opened in 1985-86: Mean: 14,221 sq. ft.
Cost to erect a building shell within last 12 months: Mean: \$26.20
Source: Chain Store Age Executive research

Supermarket
Existing stores: Mean: 30,070 sq. ft.
Amount of selling space available in typical store: Mean: 22,240 sq. ft.
Size of stores opened in 1985-86: Mean: 40,940 sq. ft.
Amount of selling space available in stores opened in 1985-86: Mean: 30,950 sq. ft.
Cost to erect a building shell within last 12 months: Mean: \$33.10
Source: Chain Store Age Executive research

Home Center
Existing stores: Mean: 27,640 sq. ft.
Amount of selling space available in typical store: Mean: 21,725 sq. ft.
Size of stores opened in 1985-86: Mean: 38,460 sq. ft.
Amount of selling space available in stores opened in 1985-86: Mean: 30,680 sq. ft.
Cost to erect a building shell within last 12 months: Mean: \$25.10
Source: Chain Store Age Executive research

Drug
Existing stores: Mean: 12,450 sq. ft.
Amount of selling space available in typical store: Mean: 10,184 sq. ft.
Size of stores opened in 1985-86: Mean: 13,460 sq. ft.
Amount of selling space available in stores opened in 1985-86: Mean: 10,930 sq. ft.
Cost to erect a building shell within last 12 months: Mean: \$28.00
Source: Chain Store Age Executive research

Department
Existing stores: Mean: 128,820 sq. ft.
Amount of selling space available in typical store: Mean: 103,867 sq. ft.
Size of stores opened in 1985-86: Mean: 117,250 sq. ft.
Amount of selling space available in stores opened in 1985-86: Mean: 95,207 sq. ft.
Cost to erect a building shell within last 12 months: Mean: \$31.10
Source: Chain Store Age Executive research

Discount
Existing stores: Mean: 69,520 sq. ft.
Amount of selling space available in typical store: Mean: 55,685 sq. ft.
Size of stores opened in 1985-86: Mean: 80,140 sq. ft.
Amount of selling space available in stores opened in 1985-86: Mean: 48,235 sq. ft.
Cost to erect a building shell within last 12 months: Mean: \$25.40
Source: Chain Store Age Executive research

STORE PLANNING: THE SIGN AS DESIGN

HUGE PHOTOMURALS HIGHLIGHTING MERCHANDISE GROW IN POPULARITY

When it comes to the use of interior signage, retailers are pulling out all stops to add to the ambience of their stores and to help direct customers.

Among the various devices being used are use of huge photomurals, both backlit and nonlighted, theatrical neon lights, banners containing symbolic drawings or photographs to identify the products, fiber optics, animated signs, illuminated aisle markers, nonlit product information signage and even clerks wearing cos-

tumes or uniforms depicting particular product categories.

One thing is for sure. Interior signage definitely plays an important role in the overall design of a store. Selecting the colors, materials, textures, woods as well as the location of the signs are no longer based on whimsy. The location and material of each sign usually has been determined with a definite purpose in mind.

Still, there is a growing number of retailers who believe that the role of signage is diminishing and that, in-

stead, the merchandise should simply sell itself.

Exponents of this philosophy point to chains such as The Limited where the vibrant colors of the clothes displayed reportedly are enough to stop the customers in their tracks.

Likewise, The Gap relies heavily on the merchandise, rather than signage or background displays, to make the sale.

Still another example is Esprit, with its vast stores highlighting various lines of colorful sportswear and related accessories. However, it also uses huge photomurals (*Chain Store Age Executive*, June 1986) of women wearing Esprit's apparel.

The growing use of photomurals is good news to a large group of store planners who still believe that signage should be an integral part of store design.

The use of photomurals continues to grow most effectively in supermarkets. Ralphs, Federated Department Stores' supermarket division, and Safeway are only two of the supermarket chains which use photomurals extensively to direct customers to various product departments and to make the products more appetizing.

Supermarkets, in particular, show enormous creativity in their use of signage. The most well known example is A&P's FutureStore with a typical unit that follows this format using over 250 black and white "pictograms" in various sizes throughout the store. These strong graphic symbols are particularly effective in promoting customer ease of shopping and in helping the customers either to plan their shopping trips around the store or to shop spontaneously and to remember items they may have forgotten.

A major use of interior signage is to direct consumers to the department of their choice within a store. Meijers of Grand Rapids, for instance, uses large-scale graphics to mark major departments, such as pharmacy, meat, service counter, apparel and sporting goods.

One chain has experimented with mammoth store maps in some stores, but has dropped these maps in subsequent stores because it was just too difficult to keep up to date with all the departmental changes.

Cub Food, a division of SuperValu

Cost per square foot for interior signage

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
Less than \$0.10	29	30	17	20	53	30	27
\$0.10-\$0.14	14	20	17	10	13	7	20
\$0.15-\$0.25	21	23	17	17	13	37	20
\$0.26-\$0.50	9	13	10	20	—	10	—
\$0.51-\$0.75	6	—	13	7	3	7	3
\$0.75-\$1.00	5	—	7	7	7	3	7
\$1.01-\$2.00	7	7	10	10	3	3	10
\$2.00+	3	—	3	3	—	—	10
Don't have interior signage	3	—	3	3	3	3	3
Individual store handles	1	3	—	—	—	—	—
Contract to outside service	1	—	3	—	—	—	—
Don't know/no answer	2	3	—	3	3	—	—
MEAN	(\$0.39)	(\$0.25)	(\$0.51)	(\$0.50)	(\$0.21)	(\$0.26)	(\$0.58)

Source: Chain Store Age Executive research

Lifespan for interior signage

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
2 years or less	17	10	3	7	30	27	23
3-4 years	5	3	3	3	3	10	3
5 years	23	27	27	23	23	20	17
6-9 years	20	17	37	33	10	13	10
10 years	18	23	20	17	7	20	20
More than 14 years	3	3	3	7	3	3	7
Lifetime/permanent	4	10	—	3	7	3	3
As needed/required	2	3	3	3	3	—	—
Don't know/no answer	4	3	—	—	10	—	13
Don't have interior signage	3	—	3	3	3	3	3
(MEAN-years)	(6.4)	(6.9)	(7.3)	(7.5)	(4.6)	(5.7)	(6.3)

Source: Chain Store Age Executive research

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Stores, Minneapolis, uses green and orange signage throughout the stores. Included are signs resembling hanging sheets on which painted lettering identifies the different departments. Wooden three dimensional lettering is used on some walls to identify other departments, such as deli, meat and fish. In the aisles, Cub uses wooden markers to show the locations of different sections within a major department, such as chicken or beef within the meat department.

At Rick's Pick 'N Save, Columbus, Wis., pastel banners with drawings imprinted on them are hung over each section of the store. These designate the merchandise to be found in that particular department. Over the dairy case, for example, there are banners with drawings of cows. Over the produce department there are banners with fruits and vegetables.

Bigg's first hypermarket in Cincinnati combines food with such general merchandise lines as apparel, health & beauty aids, consumer electronics and home furnishings. Because of its large size—123,000 sq. ft.—considerable attention was paid to making sure that all signage and graphics easily direct customers through the store to the departments they are seeking.

In Bigg's wine department, for instance, signs above the various racks tell shoppers what countries or areas the various wines are from. Above the center aisle are banners with pictures of fish, fowl and meat to tell the hesitant shopper what wine goes with what meal.

The chain utilizes a combination of illuminated aisle markers and nonlit product information signage. The layout of the store has food around the perimeter and nonfoods in the center. Thus, the back wall of the store—meat, seafood and a bakery—includes overscaled photomurals which show the products being sold in the various departments. Customers entering the huge store can see at a glance from the doorway where they want to go.

A home center, T. W. Perry, Gaithersburg, Md., relies, in part, on its red and black color scheme to appeal to its female customers. But tied to this color scheme are the signs that hang in each section of the store which identify the various departments. To soften the effect of the stark black and red colors, the store incorporated wood around the signs in the gift/housewares section, as well as in the signs hanging over the six check-out counters.

These signs provide the shoppers with a general idea as to what products she will find in each area. This is in contrast to numbering various aisles as do most supermarkets.

Still another device being used by retailers is neon signage. Coming in a wide assortment of glitzy colors, such signs loudly proclaim the location of various departments and merchandise categories.

New York-based Bloomingdale's, another division of Federated Department Stores, is a good example of the use of "jazzy" signage. A bright white Coca-Cola neon light on a red background beckons shoppers into one of its Coca-Cola apparel sections.

Long known for its departments that appear and disappear as quickly as a weekend, Bloomingdale's currently has a Miss Liberty shop on its second floor selling memorabilia for the 100th anniversary of the Statue of Liberty. The sign above the shop is strictly show business: The neon sign has "Miss" in red and "Liberty" in blue. This is all on a white background surrounded by a red border and blinking white lights. Shoppers getting off the escalator are attracted to it like a magnet.

Fiber optics signs that create constantly moving, colored displays and create excitement also are being used. ■

FIXTURES AS CUSTOMER LURES ZAYRE'S "LOOK" DRAWS SHOPPERS' ATTENTION

In the past, many retailers thought it best to select fixtures that virtually blended into their overall decor and, in turn, focused consumers' attention strictly on the merchandise at hand.

However, more and more chains seem to be discovering that such equipment can actually be configured so that it not only creates a very distinctive store "look," but, just as important, serves as a rather effective customer "lure."

Consider, for instance, the case of Zayre Corp., which has installed grid wire merchandising "towers" in the children's departments of its 345 discount outlets. According to fixture design manager Sandra Thompson, the units' triangular shape breaks up the shopper's line of vision and creates an important focal point in the

aisles.

"We have decided that in a majority of cases, we can no longer show long, uninterrupted lines of fixtures completely hidden by heaps of goods," she says. "There's too much competition for people's business out there to do that any more."

"Instead, we're moving toward fixtures that play a role in selling what we're featuring—ones that grab customers, give them the message that one department here is different from the next and, consequently, bait them over for a sale."

Thompson also believes that the white color chosen for the grid wire stands out enough to catch the eyes of most passers-by, but is not so bright as to overpower the goods.

The towers' H-framed outline, combined with their distinctive, yet

Cost per square foot for fixtures

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
Less than \$3.00	17	27	17	7	3	27	20
\$3.00-\$9.00	32	23	47	26	23	43	27
\$9.01-\$12.00	16	20	23	7	13	7	23
\$12.01-\$15.00	13	17	7	7	20	10	20
\$15.01-\$18.00	3	3	3	3	3	7	—
More than \$18.00	10	7	3	53	27	3	3
Individual store handles	1	3	—	—	—	—	—
Don't know/no answer	2	—	—	2	—	3	7
MEAN	(\$7.50)	(\$6.43)	(\$5.78)	(\$11.57)	(\$9.37)	(\$5.52)	(\$6.30)

Source: Chain Store Age Executive research

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subtle coloration, permits Zayre to "strike the perfect balance between inventory and presentation," she asserts.

Similarly, the planogramming manager for an East Coast apparel chain reports that the walls in one of his company's new store prototypes

pick out an area that strikes their fancy."

As the chain has never tried this approach before, it intends to experiment with the grids on a limited basis in one new branch and one retrofit for a trial period lasting approximately six months. Store personnel have

erally come over to them right away instead of hesitating," she says. "The natural steel color of the fixtures is perfectly fine, but the material makes them just a bit more exciting to most people and is a good shopping stimulant."

What's more, Slight points out, the gondolas in Best's newer showrooms are also being coated with custom-prepared paint in a whitish-beige shade that complements the fabric without detracting from the stores' inventory.

"We don't think the material would be as eye-catching without the paint," she observes. "Our feeling is that it would overpower it too much. The beige adds just the right touch."

In another, yet related vein, one off-price chain is trying out a newly-developed pallet rack adaptation to achieve a warehouse-type look and encourage shoppers to peruse its shelves more thoroughly. The set-up involves lining both sides of every aisle with standard gondola runs joined by overhead bridges. Each bridge has the capacity to hold two large pallet loads.

"Before we brought in this modification, all extra stock was kept in the back," remarks the chain's project manager.

"Therefore, although we are really a warehouse operation, we didn't really present that impression and, as a result, customers didn't pick over the displays as they should in a bargain-type situation."

However, he claims, the tides have turned since the pallet racks appeared in the stores. This is chiefly because "with the goods looking the way they do and appearing in such bulk, one can't help but be drawn toward scrutinizing available stock more closely."

Yet while many chains are obviously paying more attention to esthetics when it comes to buying and setting up display fixtures, some retailers contacted by *Chain Store Age Executive* say that they're still devoting an equal measure of thought to "maximizing the cube" or, in other words, utilizing available sales space most effectively. Toward that end, they are bringing in fixtures that take up less room, yet hold a much greater volume of inventory.

For example, one drug chain has replaced traditional tables used to hold sale items with round pinwheel fixtures. The company's director of store planning estimates that the pinwheels hold twice as much merchan-

Lifespan for fixtures

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
4 years or less	7	—	—	—	17	10	13
5 years	14	7	7	3	20	23	23
6-9 years	15	13	7	30	13	7	20
10 years	24	27	33	37	23	19	17
12 years	3	13	—	—	3	—	—
15 years	16	17	30	13	13	20	3
20 years	11	13	23	17	3	10	—
More than 20 years	2	—	—	—	—	10	—
Lifetime/permanent	3	3	—	—	3	10	3
As needed/required	1	3	—	—	—	—	—
Don't know/no answer	4	3	—	—	3	—	20
(MEAN-years)	(10.9)	(12.0)	(13.4)	(11.4)	(6.5)	(12.6)	(6.5)

Source: Chain Store Age Executive research

Types of fixtures used

	Total %	Discount %	Department %	Apparel Specialty %
Small racks for accessories	82	60	97	90
Large racks for apparel	89	77	97	93
Showcases	81	90	93	60
Glass cubes	78	47	97	57
Gondolas	71	93	73	47
All other mentions	8	3	7	13

Source: Chain Store Age Executive research

have been fitted with 12-ft.-high steel grid panels designed to highlight some of its most recent blouse arrivals. Company principals hope that the fixtures' height and sheen will draw shoppers' eyes upward toward the tops of its other displays, she notes.

"Before we designed this particular prototype, we noticed that customers sometimes got lost in our merchandise," he explains. "Our racks and cube units were perfectly adequate, and still are, but none of the fixtures stuck out enough to send people directly to the kinds of items they were looking for. With the grids in place, though, it is likely that people will first turn their heads toward the ceiling and when they do, become able to

been asked to observe shoppers' reaction to the panels in order to determine whether they are indeed acting as principals have projected. Should their prediction prove correct, the company will acquire identical grids for its other locations.

Also placing an emphasis on fixtures that serve as customer bait is 214-unit Best Products, adds Dena Slight, assistant manager of showroom planning. In Best's most recently opened catalog showrooms, she states, brightly colored fabric-covered brackets are being applied to gondola shelves as a means of spotlighting the merchandise contained there.

"Since the material makes the gondolas really stand out, customers gen-

dise as the tables, yet occupy only half as much floor space.

"With the tables, we had to place everything in low piles so it wouldn't start to topple," he asserts. "And, since there were always plenty of promotional items, we needed plenty of tables to do it on."

"Basically, we were merchandising wide and shallow, which, of course, is a real waste of space."

Conversely, he states, the deep pockets featured on the pinwheels allow store personnel to position a large volume of items atop each other for the sake of practicality.

"The deeper the piles, the narrower the room needed to accommodate them and the more efficient we become," he points out. "We are so pleased with the change that we're considering the idea of putting pinwheels in our 'power aisles,' where things are getting more crowded daily and selling space is really, really at a premium."

At Zayre, comparable results are being achieved with adjustable boxer racks installed in some stores this past Jan. 1. The equipment appears in the ladies' sportswear, men's and children's departments.

According to Thompson, the new fixtures are more efficient than Zayre's old 5-ft. feature racks in that they can be configured in a variety of ways.

"The feature racks allowed only for sleeve-outs," she elaborates. "On the other hand, the boxers let us put together triple-tier straight faceouts and waterfalls, with tandem racks if we want them, in about the same amount of room as a plain 5-ft. rack. This means inventory spends less time gathering dust in the stockroom and more time out on the floor, too."

Finally, a Midwestern drug chain has replaced many of its 5-ft.-high systems with 8-ft.-high models.

"This is a move to eliminate the crowding that now exists in our stock rooms," states the store planner.

"No matter how many feet across your gondolas run, you waste valuable wall space when they don't extend all that high up all four of your walls."

"Since we can't make the storage spaces any bigger and the walls above the 5-ft. level aren't being used in any kind of decorative way, we decided to make the best of our situation by expanding storage vertically."

"If the 8-ft.-high units work out, maybe we'll go even higher—perhaps to 12 ft."

NEW MATERIALS ADD FLEXIBILITY REROOFING SYSTEMS REFLECT CHANGING ATTITUDES

After many years of only paying lip service to the idea of changing from traditional built-up roofs (BURs) to some of the newer reroofing systems, retailers are now finally risking new materials.

Metal roofs are even being used for entire shopping centers. For example, Robert Greenlaw, president for Peco Construction, a Texas shopping mall developer, is now using a Vul-

tage, a great cost savings.

As James Landrum, sales manager for Vulcraft, explains, the reason for the cost savings is due to the simplicity of the roof. It is a single membrane system and does not need a heavy gauge roof deck to support it, unlike single-ply or BURs. It is light weight and allows the building designer to use lighter design loads.

This is what allows for the decrease

Types of roofing used

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %
PRE-SELECTED						
Single-ply membrane	38	60	40	43	53	33
BUR	46	40	57	63	70	47
Metal	19	17	23	7	7	60
Fabric	8	7	10	7	7	20
SPONTANEOUSLY MENTIONED						
Rubber	4	7	—	17	3	—
All other mentions	2	3	—	—	7	—
Don't know/no answer	4	7	13	—	7	3

Source: Chain Store Age Executive research

Cost per square foot for roofing

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %
Less than \$0.50	5	—	10	3	3	10
\$0.50-\$1.00	10	20	10	10	7	3
\$1.01-\$2.50	47	47	43	40	57	47
\$2.51-\$5.00	24	13	17	40	23	27
More than \$5.00	3	—	—	7	3	7
Individual store handles	5	3	13	—	3	3
Contract to outside service	1	3	—	—	—	—
Don't know/no answer	5	13	7	—	3	3
(MEAN)	(\$2.24)	(\$1.83)	(\$1.85)	(\$2.68)	(\$2.28)	(\$2.43)

Source: Chain Store Age Executive research

craft standing seam metal roof system for all of his shopping centers.

Up until 1984 he used only three-ply BURs on his centers. However, he reports, "Whenever it rained, we always had a leakage problem and repairing a leak with a BUR is a hit or miss operation."

Although the metal roofs allowed Greenlaw to alleviate the leakage problems, it also had another advan-

in cost. With BUR or Ethylene-Propylene-Diene-Monomer (EPDM), a common rubber material used in single-ply roof applications, there needs to be a structural deck. This is where the savings comes in. Vulcraft is a deck and a roof in one.

The actual cost for a 60,000 sq. ft. strip center using the metal roof is \$1.33 per square foot, says Greenlaw. He estimates that this is about a \$2

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Lifespan for roofing

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %
Less than 10 years	5	—	3	10	7	7
10 years	17	13	13	20	17	20
12 years	3	3	3	3	3	3
15 years	30	37	27	37	23	27
20 years	32	30	40	30	43	17
More than 20 years	5	3	—	—	7	17
Lifetime/permanent	1	—	—	—	—	7
Handled by mall or outside supplier	1	3	3	—	—	—
As needed/required	1	3	—	—	—	—
Don't know/no answer	3	3	10	—	—	—
Was never replaced	1	3	—	—	—	—
(MEAN-years)	(15.8)	(16.2)	(15.9)	(14.6)	(16.3)	(16.0)

Source: Chain Store Age Executive research

per square foot savings as compared with using an EPDM single-ply roof.

While metal roofs may be an appropriate product for Greenlaw and other developers, the National Roofing Contractors Association's (NRCA) 1985 Industry Survey Findings show that single-ply roofs have 52% of the commercial/industrial market.

Citing the NRCA's recent study, Robert Nicholl, manager of marketing communications for J. P. Stevens, manufacturer of single-ply roofs, says, "This is a significant change as compared to last year."

Although product developers at Stevens have not recently introduced a new single-ply roof material, they have been offering a new method for heat welding their Hi-Tuff reinforced white Hypalon roofing system.

Sandwiched in between two layers of the Hypalon (a rubber polymer made by Du Pont) is a loosely woven fabric that acts as a membrane.

Because the roof system requires seam welding to fasten the sheets to one another where they overlap, Nicholl says, "I see a trend in the advancement of roof top seam welding. All single-ply sheets can only be made so long. They have to be welded at the seams to make them watertight."

In order to improve upon the technique that is commonly performed by a person who operates the welder, RoofWare Inc. has developed CompuWelder, a computer-operated welding system that can only be used with Stevens' product.

The computer welding system removes almost all chance for human

error in the welding process. "There is an infrared sensor built into the welding machine that uses a computer to sense the temperature of the machine at the point of the weld."

CEILING DESIGN IS LOOKING UP OVERHEAD DECOR ADDS TO OVERALL IMAGE

How often does a customer walk into a store and immediately look toward the ceiling? Probably not very often, but she's probably missing out on some very interesting design techniques.

More retailers today are banking on the fact that their ceilings will be

At Sears, Roebuck, Donald Friedel, senior project manager for the chain, says he has just begun using the CompuWelder.

Mechanically fastening a layer of single-ply material to a building involves laying down a sheet of EPDM and then screwing or nailing the sheet to the deck. This process is repeated each time a new sheet is put down.

Fastening a roof mechanically results in less weight than when it's ballasted. A square foot of mechanically attached roof is about ½ lb. as compared to 10 lb. for a square foot of ballasted. The ballast (a form of gravel) causes the great amount of weight.

"We are just beginning to look at mechanically fastened single-ply roofs for our buildings," says Thomas Biuso, architectural planning manager for J. C. Penney.

"A mechanical fastening method is a more positive way of fastening. With a ballasted roof, you have to increase the framing of the building in order to accommodate for the heaviness of the ballast," he says. ■

noticed by customers—and be appreciated as more than just hiding the heating, ventilation and air-conditioning equipment.

"There is a lot to be said about the intricacy of ceilings," says William Speer, manager of store design for J. C. Penney, adding that, "If you try

Lifespan for ceilings

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
Less than 10 years	12	3	17	13	13	20	7
10 years	24	23	23	33	10	23	30
11-14 years	3	—	7	7	3	—	3
15 years	17	13	30	17	17	13	10
16-19 years	1	—	—	3	—	—	—
20 years	15	20	13	13	27	13	3
More than 20 years	5	7	—	—	13	—	10
Don't have ceilings	6	7	—	3	—	17	7
Lifetime/permanent	13	23	10	7	13	10	13
Was never replaced	1	3	—	3	—	—	—
Just recently installed	1	—	—	—	—	3	—
Don't know/no answer	3	—	—	—	3	—	17
(MEAN-years)	(14.0)	(15.2)	(12.8)	(12.4)	(18.0)	(11.5)	(14.2)

Source: Chain Store Age Executive research

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Cost per square foot for ceilings

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
Less than \$0.50	12	13	28	3	23	23	13
\$0.50-\$1.00	32	40	45	40	27	23	20
\$1.01-\$2.50	30	23	20	50	53	30	37
\$2.51-\$5.00	8	10	3	—	17	3	17
More than \$5.00	2	3	—	—	3	3	3
Contract to outside service	1	—	—	3	—	—	—
Don't have ceilings	6	7	—	3	—	17	7
Individual store handles	2	—	7	—	—	—	3
Don't know/no answer	2	3	—	—	—	10	—
(MEAN)	(\$1.48)	(\$1.48)	(\$1.07)	(\$1.27)	(\$1.96)	(\$1.24)	(\$1.83)

Source: Chain Store Age Executive research

Types of ceilings used

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
2x4 ft. lay in panels	72	63	90	63	63	63	67
Acoustical	16	7	13	20	37	—	30
12x12 exposed truss	7	7	—	7	23	3	3
2x2 ft. lay in panels	25	3	13	20	57	17	40
Plaster	11	2	10	3	23	3	23
Regular 2x4 ft. lay in panels	12	—	3	13	23	3	27
Regular 2x2 ft. lay in panels	9	—	—	10	17	—	30
All other mentions	12	3	3	10	27	13	13

Source: Chain Store Age Executive research

to do a total design package and put in a cheap ceiling, it will not add up to the effect you are trying to create."

J. C. Penney is working to have the ceilings be consistent with its design theme which is less decorative than some other chains.

As a result, much of their experimentation with ceiling design is limited to raising or lowering the grade.

As retailers realize the psychological impact of color—a way to make the shopping experience more pleasant for the consumer—more are opting for color ceilings.

"Before we used white ceilings. Now we have gone with tinted [panels]. It warms the atmosphere," says David McCaulou, president of McCaulou's, a California-based specialty department store.

The color (manila) that McCaulou chose for his chain is not a drastic deviation from white, but he did not want a deeper hue because the stores

would appear to be too dark.

Connie Peterson, product manager for fabric specialty ceilings for U. S. Gypsum, says: "We are using more color to direct the consumer

through the changes in the store's departments. As the ceiling color changes, the department changes."

Max Zanoni, designer for Jon Greenberg & Associates, agrees. Having used color panels in both Crowley's and Winkelman's, he says, "Retailers are seeing the ceiling as the largest [area] in the store. If you want to make an architectural statement, the ceiling is where to do it."

The decor of Crowley's is gray, so, in order to tie the ceiling into the total design package, Zanoni chose a gray hue.

Instead of a plain face, the series consists of five different ceiling patterns. Each panel in the series is 2 ft. by 4 ft. but because of the differing etched designs, they do not have the traditional panel appearance. Zanoni estimates that the cost of each panel installed is about 35¢ more than a traditional 2 ft. by 4 ft. panel.

However, other retail chains, such as Roundy's (a Wisconsin-based supermarket chain), use the overhead area to make a more dramatic design statement.

Gary Zmuda, manager of engineering for the supermarket, says, "Most of our stores are ceilingless. All you see are the bare joists. These exposed ceilings give a feeling of spaciousness," he says.

Aside from a design technique, the exposed ceilings are a money saver. "We save between 20% and 30% compared to what it would cost us for a lay-in ceiling," Zmuda says.

"A lot of retailers . . . are having to compete for the customer on things other than price points so they . . . are having to put together an interior decor package," says Carl Schmidt, director of marketing for Integrated Ceilings. ■

TOP FLOOR PRIORITY: DURABILITY CONCEALING EFFECTS OF WEAR A MAJOR FACTOR

When retailers select from among various flooring options, their prime criterion appears to be how well the material will disguise dirt, dust, scuff marks and other signs of wear.

For instance, when Claire's Boutiques opted to upgrade the floor covering used in its units, James Saum, director-store planning and construction, sought out "tone-on-tone" carpet dyed in varying degrees of a single shade. After careful consideration, he

eventually settled upon what he terms "a mixture of light and dark brown fibers with a pin dot-type appearance."

"We had been installing a mauve material but it just didn't hide the stains sufficiently," he says. "Its monochromatic nature made every blemish stand out. We decided that if we were going to spend \$15 per square yard on high-quality carpet, which we were prepared to do in order to give our stores a more upscale

RETAIL CENSUS

Types of flooring used

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
VAT	84	88	47	88	88	87	87
Carpet	57	88	33	28	100	37	100
Vinyl	35	33	38	48	58	37	38
Concrete	31	33	7	48	37	58	17
Quarry tile	37	38	23	58	58	13	48
Hardwood	18	3	—	3	73	7	23
Terrazzo	17	3	27	38	38	7	13
Marble	8	—	3	—	33	—	—

Source: Chain Store Age Executive research

Lifespan for flooring

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
4 years or less	4	—	—	—	7	13	3
5 years	13	3	7	3	23	18	38
6-8 years	24	23	13	38	48	7	38
10 years	27	27	37	37	17	27	17
11-14 years	2	3	3	7	—	—	—
15 years	13	28	28	13	—	23	3
20 years	7	17	13	3	3	7	—
More than 20 years	8	—	8	3	7	18	3
Lifetime/permanent	2	3	—	3	—	3	—
Don't know/no answer	3	3	—	—	3	—	13
(MEAN-years)	(11.7)	(12.8)	(13.3)	(12.6)	(18.5)	(13.7)	(8.7)

Source: Chain Store Age Executive research

atmosphere, whatever we bought would have to hold up to plenty of abuse without showing it."

Specifically, he decided to buy a carpet with more than one color in it so soil would blend in easily. Similar considerations were behind J. C. Penney's installation of "flecked" pile in several new and renovated units, according to William Judge, design development manager. The speckled effect is achieved during the manufacturing process, when some of the carpet's darker fiber ends are looped underneath the lighter ones.

"This carpet is intended for our clothing and home furnishings departments," Judge notes. "Because these areas are so popular, our first priority is to keep them in top-notch shape, which means having surfaces that disguise, not emphasize dirt."

Because of the new options now available, even some supermarkets are experimenting with carpet installations. For example, the produce aisle of its Mount Pocono, Pa., food

market, A&P chose a basically brown product which, according to planning and design director Richard Sokolnicki, "resembles oatmeal in its overall appearance."

Sokolnicki points out that while A&P's primary goal with the carpet tile experiment is to determine how well it can curb slip-and-fall accidents, the oatmeal color was specified as an auxiliary feature of the test.

"We really want to find out what kind of carpet patterns do the best job of covering up stains," he explains. "Although damaged tiles can be pulled up and either washed or replaced, we feel it's better to find shades that lessen that need."

However, carpet purchasers are not alone in prioritizing stain-hiding properties when shopping for floors. Rather, even chains whose interests lie in hard floor covering are picking up on this trend.

At A&P, for example, synthetic rubber sheet goods may soon be laid down in a number of stores, either in

produce sections alone or throughout each unit. The sheeting contains a wax component that renders scuff marks less obvious. And, when incorporating quarry tiles into an A&P branch in Rehoboth Beach, Del., Sokolnicki saw to it that the material had built-in abrasives that stand up to heel marks.

Similarly, the white vinyl asbestos tile used to highlight Pay Less Drug Stores' cosmetics departments has a brick-type pattern instead of a plainer, smoother surface.

"Despite the fact that white floors get dirty more easily than do darker ones, we need to stick with them because they reflect light upward and make our aisles look bigger," explains G. Boyd Sempel, vp-construction. "The texture was a deliberate choice because it helps mask soil."

Yet, while planners are obviously gravitating toward somewhat practical flooring applications, they are devoting equal attention to devising creative flooring designs.

An example is what has taken place at Houston's Fiesta Markets, where management has created a Houston minimarket prototype featuring a red and white vinyl floor. This matches and highlights its beverage center.

By specifying the red and white surface, interior design firm Pennan Inc., Houston, was "attempting to appeal to the market's largely Hispanic clientele," remarks Pennan staffer Mike Rogers. "We had discerned that Hispanics are comfortable in festive atmospheres, which we believed this particular flooring would help us to connote," he asserts.

Penney has also come up with some innovative applications for hard-surface materials. For example, the housewares department is set off by checkerboard-patterned tile borders in two contrasting colors.

"The edges virtually 'carve' the housewares shops out of the rest of the flooring in a kind of three-dimensional manner," Judge says.

A&P's Kohl Food Stores subsidiary has jumped on the bandwagon as well by outlining some of its checkout counters with bold red zigzag tile against a white background. Additionally, several A&P outlets have installed 2 ft. by 2 ft. gray-on-white or black and white tile borders around their delicatessens in angled patterns that follow the contours of the fixtures within.

According to Sokolnicki, the angles "afford extra visual interest, without generating too much confusion." ■

SOME CHAINS COMBINE FLOOR CARE OPTIONS

WARD'S CMO ENFORCES COMPANY STANDARDS, REDUCES IN-STORE COSTS

In-house cleaning crews or outside janitorial services. There are definite pros and cons no matter which floor care option a retailer chooses.

"Keeping janitorial services in the family may give you better scheduling flexibility, but not as much cleanliness consistency from branch to branch," says the director of maintenance for a discount operation. "On the other hand, contracting jobs out has traditionally been more cost-effective, yet allows less control over how often the work will be done and with what machinery."

However, at least one retail company claims to be enjoying the benefits afforded by both systems. How? By establishing a program whereby it owns its own equipment, but has established its own set of usage standards to insure consistent clean line levels throughout the chain.

That company is 325-unit Mont-

gomery Ward which, in 1984, formed a central maintenance organization (CMO) with the intent of finding a way to enforce company-wide house-cleaning standards while reducing store upkeep expenditures.

According to Larry Green, CMO technical coordinator and sales manager for Montgomery Ward's Standard T chemical manufacturing subsidiary, the program—devised with the help of parent company Mobil Corp.—proved so effective in a test run that by late 1985, it had been implemented in all 325 stores.

Under the chain's previous maintenance, "Individual managers did pretty much what they wanted to when it came to cleaning their units," recalls Green. "In the area of floor care, some stuck to their own staffs and selected machinery themselves; others hired local firms of their choice."

As a consequence, "We had trouble insuring that the floors in all our branches always appeared exactly as we liked them—shiny and scrubbed. It was all too common an occurrence for us to walk into one unit and find its tile and carpets looking perfectly well-kept, while another store in the next town or state seemed not quite up to snuff."

The problem was that "Everything depended on whether particular stores had been able to call in the contractor when necessary, the basic ability of in-house help and the appropriateness of the machinery and materials in use. Even worse, since there was no officially sanctioned floor maintenance plan, cost containment was absolutely out of the question."

To remedy the situation, Montgomery Ward established a CMO comprised of 14 of its own main-

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nance supervisors, plus 10 technicians from Standard T. The group was assigned to work with Gary Kohut, an engineer/project manager on nine months' loan from Mobil, toward the standardization of in-store house-keeping policies (with a special emphasis to be placed on floor care). Budget for the project, including research, training and equipment acquisition, was set at \$1 million.

Kohut began by conducting a detailed study of all maintenance methods. With the help of a computer, he evaluated the efficiency of individual procedures based on correlations between unit sizes, equipment used and the amount of time needed to clean each site.

"Keeping in mind what individual CMO members had to say about day-to-day operations in particular branches, Gary first determined that the best way for us to achieve floor care consistency was to totally outlaw outside contractors in favor of having our own people perform the job," Green explains. "In his view, Montgomery Ward staffers would be more

Lifespan for flooring maintenance equipment						
	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %
4 years or less	13	13	17	7	13	17
5 years	36	37	33	30	37	43
6-9 years	13	13	18	33	7	—
10 years	14	13	13	13	13	17
12 years	1	—	—	—	3	—
15 years or more	1	—	3	—	—	—
As needed/required	1	3	—	—	—	—
Lifetime/permanent	1	—	—	—	3	3
Handled by outside supplier or mall	12	18	23	3	20	7
Don't know/no answer	8	10	3	10	3	3
Don't have floor maintenance equipment	3	—	—	3	—	10
(MEAN-years)	(6.1)	(6.0)	(6.2)	(6.4)	(6.1)	(5.6)

Source: Chain Store Age Executive research

willing to conform to strict, uniform standards than would various outside firms in the cities where our branches are located."

Once this step had been completed, Kohut and the group worked in tandem to develop a floor maintenance program that could be used in

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Cost per square foot for flooring maintenance

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %
Less than \$0.10	37	40	37	37	27	43
\$0.10-\$0.14	9	—	20	17	—	7
\$0.15-\$0.25	14	20	13	7	23	7
\$0.26-\$0.50	10	10	3	17	7	13
\$0.51-\$0.75	5	10	3	—	7	3
\$0.76-\$1.00	3	3	—	—	10	3
\$1.01-\$2.00	1	—	3	—	3	—
\$2.00 +	1	—	—	—	3	—
Don't have floor maintenance equipment	3	—	—	3	—	10
Contract out to outside service/handled by mail	6	—	7	7	7	10
Individual store handles	9	10	13	10	10	3
Don't know/no answer	2	3	—	3	3	—
Refused	1	3	—	—	—	—
(MEAN)	(\$0.24)	(\$0.23)	(\$0.19)	(\$0.15)	— (\$0.44)	(\$0.19)

Source: Chain Store Age Executive research

every Montgomery Ward outlet. To afford maximum efficiency with minimal manpower, they opted to purchase only burnishers, scrubbers and shampooers with high-speed (1,500 rpm-plus) capacities; any existing equipment falling short of that requirement was to be retired. It was also decided that units' hard floors were to be scrubbed and shined up daily; carpets were to be vacuumed at the end of every business day and shampooed at a rate of 5% of store area per evening.

Finally, the 14 supervisors underwent 60 hours of classroom training conducted by Green and his colleagues and attended several "hands-on" workshops. Their curriculum included such topics as utilizing the new equipment to its greatest advantage and dealing with mechanical breakdowns. Just as significantly, they were given what Green terms a "thorough explanation of what we in the corporate sector consider a clean floor—namely, one with few, if any, scuff marks, dust flecks and dirt spots."

By the end of 1984, the chain was ready to test its universal floor maintenance program in 10 Tampa-area stores. According to Green, "it was immediately apparent that we had made the right decision by buying the machines and specifying exactly how they were to be used. The stores stopped looking different; the floors in every one seemed to be in top-notch shape all the time. Even bet-



FLOOR CARE: CONTRACT IT OUT OR KEEP IT IN THE FAMILY?

ter, bringing the maintenance procedures in-house, with the right kind of equipment and just one schedule for employing it, cut the housekeeping budget by 30%.

"Since management was satisfied with these results, we went ahead and instituted the program company-wide; the last branch switched over in April 1985." During the conversion period, janitorial crew captains from each unit took an encapsulated ver-

sion of the CMO training course to acquaint them with the machinery and cleaning timetable.

Aside from the original mandates, Montgomery Ward's floor care system now calls for weekly store inspection visits from the CMO supervisors, who evaluate how well individual sites are conforming to standards and report their findings back to corporate headquarters. Supervisory personnel must take company-run seminars monthly to keep abreast of changing technology, and are asked to share what they learn with individual managers. And, should any manager experience problems with the "marriage" between equipment and chemicals, a team of lab chemists from Standard T is always on hand to suggest the appropriate remedies.

"What we're doing may seem complicated, but it isn't all that difficult once you have the right kind of machines and a real plan for how they should be applied," Green says. "For us, the program is already paying off in savings of about \$10.5 million in the first year of implementation."

However, while Montgomery Ward may be something of a pioneer in new approaches to floor care, it is not the only retail chain currently attempting to make changes in this area. For instance, Jewel Cos. has converted all but five to 10 of its stores from using its own janitorial services to contracting with local firms.

"We tried training employees to clean our stores a certain way but because most of the people doing maintenance were young kids, there was a lot of turnover and never any real consistency in the results," reports Pete Conti, who is in charge of supplies acquisition for the chain.

"Part of the problem also stemmed from the fact that we had no access to technical expertise where floors were concerned, so eventually we did away with the in-house method completely."

Instead, he explains, Jewel has effected a plan whereby outside cleaning companies maintain each of its branches, but only in strict accordance with policies formulated at corporate headquarters.

"Our stores must be serviced an average of four to five days per week, with the chemicals and scrubbing machines provided by us," he notes. "The cleaning firms provide the buffing equipment, which we don't own, and, even more important to us, the expertise we cannot pretend to possess."

EMPLOYERS TAKE FIRM STAND AGAINST SHRINKAGE

RETAILERS SET THEIR SIGHTS ON KEEPING EMPLOYEES' FINGERS OUT OF THE TILL

"People are becoming more cost-conscious [about security systems] . . . it's not cost effective to play cops and robbers any more," states James Burger, director of loss prevention operations for Saks Fifth Avenue.

Burger's comment reflects the attitude adopted by most retail chains. On one hand, retailers are taking a more hardnosed stance in dealing with shrinkage; yet, on the other, they are seriously questioning the costs of security measures.

"Expenditures [for security sys-

tems] are increasing at a slower rate than in the past," reports Jack L. Hayes, a loss prevention and security consultant, " . . . however, retailers are getting more aggressive."

According to both Hayes and Burger, the three leading causes of shrinkage today (aside from paperwork errors) are:

- shoplifting;
- employee pilferage;
- credit fraud, the newest and fastest growing form of loss.

"Most people have addressed the external problem [shoplifting]," says

Burger, referring to the widespread installation of anti-shoplifting systems. However, as these systems become the norm, shoplifters are quickly learning ways to beat the system. As a result, the most commonly used devices, EAS, are constantly being refined.

Most recently, manufacturers have started concentrating on radio frequency technology. Radio frequency systems are touted as having higher reliability and a better detection rate than the older magnetic and microwave systems.

"With radio frequency you don't have the problem of the system's detecting things other than the tags," reports William Adams, vp-marketing and planning for CheckPoint. That manufacturer has introduced a radio frequency EAS system utilizing disposable paper tags that can double as price tags.

With systems in place to deter shoplifting, retailers are turning their attention to the area of employee pilferage. For example, it was recently reported that Bloomingdale's is offering an unprecedented \$2,500 reward to any employee who reports a co-worker who is stealing. (Typically, similar rewards total no more than \$100 or \$200.)

"Retailers are now becoming more willing to acknowledge employee theft," says Burger.

At this writing, Saks is readying to implement its Upfront series of video modules designed to address its sales associates on employee theft. Developed with the help of Hayes and Arthur Young Associates, Upfront consists of a half dozen videotapes, each running five to seven minutes.

Topics addressed include the causes and effects of employee theft; the definition of honesty; Saks' commitment to honesty and its responsibility to prevent dishonesty. Following the viewing of each module, employees will be asked to participate in a short discussion session.

"It's tough to get even a half hour with [sales] people for training, so instead we put together a total of 35 minutes' programming," Burger explains. Showing shorter films more frequently, he says, will foster a feeling of continuity; while each module can function on a stand-alone basis, the frequency of viewings will help

Primary security system used

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
PRESELECTED LIST							
EAS	42	40	53	33	43	27	53
Guards	22	27	20	27	33	17	10
Cameras	21	10	27	50	27	3	10
POS software	12	10	10	10	23	13	7
SPONTANEOUSLY MENTIONED							
Employees surveillance	13	13	10	13	—	33	10
Burglar alarms	4	3	3	3	—	7	7
Do not use security systems	4	3	3	—	3	10	7

Source: Chain Store Age Executive research

Cost per square foot for security systems

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
Less than \$0.10	23	37	27	33	10	23	10
\$0.10-\$0.14	13	20	23	3	7	17	7
\$0.15-\$0.25	19	17	23	17	23	7	27
\$0.26-\$0.50	11	10	—	13	20	13	10
\$0.51-\$0.75	5	3	3	7	10	—	7
\$0.76-\$1.00	4	3	7	7	—	—	10
\$1.01-\$2.00	2	—	3	3	3	—	—
\$2.00 +	3	—	—	3	—	10	7
Contract to outside service	2	3	3	—	—	3	—
Don't have security systems	10	—	7	3	13	13	23
Individual store handles	2	—	3	—	7	3	—
Don't know/no answer	6	7	—	10	7	10	—
(MEAN)	(\$0.36)	(\$0.18)	(\$0.25)	(\$0.39)	(\$0.34)	(\$0.49)	(\$0.52)

Source: Chain Store Age Executive research

Lifespan for security systems

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
4 years or less	7	10	7	7	—	13	3
5 years	19	10	27	17	13	30	20
8-9 years	11	13	10	23	6	—	10
10 years	19	17	23	27	20	20	10
15 years	4	7	—	7	10	—	3
More than 15 years	6	13	3	—	13	3	3
Lifetime permanent	9	17	7	7	3	7	13
As needed/required	9	10	10	7	17	10	3
Was recently installed	1	3	3	—	—	—	—
Handled by outside supplier or mail	1	—	—	—	—	3	—
Don't know/no answer	3	—	3	3	3	—	10
Don't have security systems	10	—	7	3	13	13	23
(MEAN-years)	(8.7)	(10.1)	(7.5)	(7.9)	(12.1)	(6.8)	(8.1)

Source: Chain Store Age Executive research

one film reinforce another.

The final module of the series outlines Saks' awards program for reporting shoplifting, employee theft and credit fraud. Although Saks has established a monetary award program, "employees aren't motivated by the money, but rather by the ethics," Burger explains.

"Most people are honest; it's just a small handful who are responsible for employee theft," he says. "And we found that many of these honest people would like to report it when they're aware of another employee's stealing, but many times they don't know how to go about it or who to tell." The Upfront series is designed to answer many of those questions.

Saks has already used video in training its people to detect and deter shoplifting. That module touches on some areas of customer service as well. "If you train your people in good customer service, you also get other benefits," Burger points out. "You'll get more sales; your stores will develop a better image. And," he emphasizes, "by teaching your salespeople to be more aware of customers—greet them, make eye contact—it will deter shoplifting."

Finally, credit fraud is rapidly earning a reputation as a formidable source of shrinkage. Stolen and fake credit cards, which have plagued retailers for years, are only part of the problem—the pervasive use of credit cards coupled with more relaxed returns policies is resulting in widespread fraudulent refunding.

"Why should a shoplifter sell the merchandise on the street for 25¢ on the dollar, when he can bring it back to the store and get 100¢ on the dollar?" asks Burger, summarizing a major part of the problem. In addition,

as cashiers and clerks become more savvy in operating computerized POS systems, they, too, have learned ways to manipulate refunding.

Saks recently caught an employee charging credits back to her credit card without buying or returning any merchandise. In her previous job, the former airline employee had learned how to write up returns without having a customer's name appear on the slip. If it hadn't been for another alert employee who recognized the credit card number from seeing it repeatedly, says Burger, her actions would have gone undetected.

In order to address fraudulent refunding, various companies have developed POS software that can tip off a retailer about the possibility of a refunding scam. Some systems are designed to flag employees who process an inordinate amount of refunds; others compile the names and addresses of customers returning merchandise. If a name or an address comes up repeatedly, the system will again alert the retailer.

While anti-credit fraud POS software is not new, its use is becoming more widespread as retailers install new or upgraded POS systems. ■

EXPERIMENT IS THE WATCHWORD TRYING DIFFERENT LIGHTS FOR DIFFERENT SITES

"Retailers have finally learned that no single type of interior lighting is appropriate for every application; these days, they're very much into testing different applications."

So says Bob Lindahl, divisional vp and director of buildings and properties for 39-unit Kohl's Department Stores.

According to sources contacted by *Chain Store Age Executive*, Lindahl is correct in his assessment. While they still have both energy savings and esthetics in mind, many retailers are experimenting with such lighting techniques as new fluorescent tubes, PL lamps, open-celled baffles and reflectors.

At the same time, other companies are devoting a great deal of attention to improving the color rendition of their accent lighting by performing trial runs with several varieties of low-voltage fixtures.

"In the not-too-distant past, stores were restricted to a choice between incandescent recessed lighting with

reflector floods or standard 2x4s," claims one engineer. "As a result, many were overlit or underlit. The available options simply weren't appropriate for their individual environments, either energy- or looks-wise. However, recent technological developments are allowing chains to break out of the old mold—either by experimenting with new lamps or by experimenting with the actual fixtures."

Associated Dry Goods is one of those retail concerns giving thought to trying out some lamp innovations, reports Richard Sundquist, ADG's director of engineering. For example, several of its Robinson's stores may soon be fitted with T8 fluorescent lighting sources for general illumination.

The T8s, which measure 1 in. in diameter and come in several color temperatures and tube sizes, feature a phosphor coating that allows them to emit a warm white glow. They can fit into electronic ballasts set up to control four lamps simultaneously.

Cost per square foot for interior lighting

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
Less than \$0.10	2	—	—	—	—	7	3
\$0.10-\$0.14	8	7	10	7	—	17	7
\$0.15-\$0.25	14	13	17	3	17	30	7
\$0.26-\$0.50	7	13	7	13	3	—	3
\$0.51-\$0.75	7	7	—	17	3	10	7
\$0.76-\$1.00	16	10	27	23	20	10	7
\$1.01-\$2.00	19	17	17	13	20	17	27
\$2.00 +	23	23	17	20	33	10	37
Contracted to outside services/handled by mall	1	3	3	—	—	—	—
Individual store handles	2	3	3	—	3	—	—
Don't know/no answer	2	3	—	3	—	—	3
(MEAN)	(\$1.16)	(\$1.17)	(\$1.04)	(\$1.11)	(\$1.42)	(\$0.74)	(\$1.50)

Source: Chain Store Age Executive research

Lifespan for interior lighting

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
4 years or less	9	17	3	7	3	17	7
5 years	8	—	7	3	10	17	13
6-9 years	10	7	7	23	7	10	7
10 years	23	17	27	27	13	23	33
11-14 years	2	3	—	3	3	—	3
15 years	15	13	20	17	20	10	10
16 years	1	—	—	3	—	—	—
20 years	16	30	30	7	20	7	3
More than 20 years	2	—	—	—	3	3	3
Handled by mall or outside supplier	1	3	—	—	—	—	—
Lifetime/permanent	8	10	7	7	10	10	7
Was never replaced	1	—	—	3	—	—	—
As needed/required	1	—	—	—	3	3	—
Don't know/no answer	4	—	—	—	7	3	13
(MEAN-years)	(11.7)	(12.6)	(13.5)	(10.5)	(13.3)	(10.1)	(9.9)

Source: Chain Store Age Executive research

"Basically, we're bringing in this kind of technology as a trial, to see whether it will give us more lighting 'miles to the gallon,'" Sundquist explains. "One advantage we're aware of is that these particular tubes operate with 32-watt bulbs rather than standard 40-watt models, with no discernible difference in the degree of brightness they provide."

"Should our test run true to form, the 32-watt reduction in each ballast (8 watts less per lamp) could make for a substantial monetary savings—

enough to make the products a standard for new store installations," he says.

Similarly, at one branch of a Midwestern specialty operation, twin-tubed fluorescent bulbs are currently being installed (retrofitted) into sockets formerly used for housing incandescent equipment. Generically termed "PL lamps," the replacement units operate on seven to 14 watts of power and are capable of producing the same kind of warm white overall light as the T8s.

Although the "PL experiment" is only a few months old, personnel at the chain's corporate headquarters are already deeming it a harbinger of changes to come. "Right after we put in these items last January, we had to admit that we had made a mistake when it came to choosing our regular lighting system," concedes its architectural director.

"We have 150-watt incandescent floodlights, which not only generate so much heat that they send our air-conditioning bill sky-high during the summer months, but also create too high a degree of glare in the selling areas."

"On the other hand," the director continues, "we're finding that since the wattage on the PLs is so much lower, the test site costs about 50% less to illuminate than do our outlets, is only half as hot and contains no harsh light spots."

Consequently, he states, the specialty operation plans to undertake the retrofitting process in all of its 40-plus stores at a rate of approximately 10 to 15 outlets monthly.

Also becoming popular, retailers say, is the practice of testing entirely new or reconfigured lighting fixtures, rather than just the lamps designed to go inside them.

A case in point is Claire's Boutiques which, as an alternative to traditional 2x4 housing, gradually acquired cube-shaped open fixtures called "baffles" for its 380 outlets. James Saum, director of store planning and construction, estimates that the square units have slashed Claire's lighting expenditures by approximately 25% since they were installed last year.

"The savings were apparent from the initial trial installation," he asserts. "While the 2x4s utilized four bulbs, the baffles needed only three, which is where energy conservation came in."

What's more, Saum adds, because the lamps placed inside the cubes were more deeply recessed than those inserted into 2x4s, any concern about "unattractive equipment protruding from the ceiling and detracting from the stores' appearance" was automatically eradicated.

"The improvements were so great that there was really no question about making the installation of baffles a company-wide policy," he observes.

In a different vein, Lindahl reveals, Kohl's is conducting two separate reflector technology trial runs at

its Waukesha and West Bend, Wis., branches for periods of 16 and 20 months, respectively. Two lamps have been removed from each of the outlets' four-lamp fluorescent fixtures and replaced with the mirrored objects.

"The reflectors give the illusion of twice as many bulbs, with half as much power, by bouncing the light you do have off a metallic strip," Lindahl notes. "At the same time, they disguise the empty sockets from which the bulbs have been taken, so it doesn't look like there are black holes in your ceiling."

"Although we haven't yet quantified the savings inherent in this alternative, we can say that we are pleased with it and are considering its use in other Kohl's locations."

Meantime, a number of chains are looking at innovative ways to pack punch into accent lighting while simultaneously improving color rendition. For instance, in conjunction with the T8 experiments being conducted in its new stores, ADG is pinpointing some display areas with low-voltage tungsten-halogen lamps. Originally developed for use on optical projection equipment, the items produce a color balance that comes close to mimicking sunlight.

According to Sundquist, the equipment works on a 90-watts-per-fixture allowance, compared with the 150 watts needed by other display lights. Nonetheless, it illuminates merchandise at approximately four to five times the ambient level achieved by older fixtures.

"The goods highlighted by these lamps look brighter and more like they are supposed to," Sundquist says. "Red is red, not pink; blue is blue, rather than a washed-out gray, and so on."

And, at Heck's discount stores, metal halide lamps with color temperatures of about 3000° Kelvin have been approved for use as a means of making checkout counters and surrounding sales areas stand out from other departments. The bulbs are suspended from the ceiling in housings called "luminaires."

"When we tried the halides, we found that they mixed well with the light in our ceilings, making the checkouts very obvious without producing too much glare," notes energy manager Ben Shew.

"After considering various strategies, we went ahead and put them in all our branches. Happily for us, we are pleased with the decision." ■

H. E. BUTT TESTS DRY AIR SYSTEM SUPERMARKETER SAVES ON COSTS AND EFFICIENCY

Store engineers are constantly probing new areas to improve their heating, ventilation and air-conditioning (HVAC) systems to improve efficiency and reduce overhead costs.

One of the retail companies that has been most active in HVAC testing is San Antonio, Tex.-based H. E. Butt, a 150-unit supermarket chain in the Southwest. Most recently the company completed a study with the Gas Research Institute on HVAC and

how cargo care systems could be utilized to build a desiccant-based HVAC system. This system is in use in 20 stores and will be in all new stores and all major remodels.

The system uses a fiberglass honeycomb wheel which is impregnated with lithium chloride to remove the moisture from the stores, explains Dean Calton, Butt's engineer.

The units provides sensible cooling, keeping the stores at 75°F and 40% relative humidity.

Cost per square foot for HVAC

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %
Less than \$0.10	7	3	3	7	3	20
\$0.10-\$0.14	2	7	—	3	—	—
\$0.15-\$0.25	9	7	7	7	10	13
\$0.26-\$0.50	7	10	7	3	7	10
\$0.51-\$0.75	7	7	—	10	7	10
\$0.76-\$1.00	5	3	7	3	10	3
\$1.01-\$2.00	19	23	20	20	17	17
\$2.00 +	37	33	40	47	37	27
Contract to outside service/handled by mall	1	3	—	—	3	—
Individual store handles	5	—	17	—	7	—
Don't know/no answer	1	3	—	—	—	—
(MEAN)	(\$1.44)	(\$1.41)	(\$1.68)	(\$1.59)	(\$1.49)	(\$1.08)

Source: Chain Store Age Executive research

Lifespan for HVAC

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %
5 years or less	5	—	3	—	3	17
6-9 years	6	—	3	7	3	17
10 years	17	20	17	27	3	17
11-14 years	5	13	3	—	3	3
15 years	28	30	23	47	23	17
16-19 years	1	—	3	—	3	—
20 years	22	20	20	13	37	20
More than 20 years	5	3	—	3	20	—
Lifetime/permanent	3	—	7	3	—	3
Was never replaced	1	—	—	—	3	—
As needed/required	3	7	7	—	—	—
Handled by outside supplier/mall	1	—	3	—	—	—
Don't know/no answer	3	7	10	—	—	7
(MEAN-years)	(14.9)	(15.0)	(14.4)	(14.3)	(19.1)	(11.6)

Source: Chain Store Age Executive research

The result: even though the air handler is more expensive than the traditional HVAC system, there is a cost savings in the installation of ducts because of reduced air flow requirements.

Because the quality of the air being delivered is drier, not as much air has to be delivered, and therefore the ductware is less expensive.

Also, the air-conditioner condenser units are smaller, resulting in reduced maintenance, installation and capital cost expenditures. This is because the system doesn't require overcooling to remove the water from the air. Generally, a store has to overcool to get the humidity down.

Thus far, it has saved H. E. Butt about 15% on installed costs. The system also performs about 7% more efficiently.

The real key item, says Calton, is that before the new system was installed, the chain couldn't control humidity in the stores. Now the stores are comfortable, and the product presentation is better: no frost on packages, no sweaty moisture on dairy products, and no fungus, a problem in coastal areas. "We've raised our store temperature and lowered the humidity. It had been 72°F and 55% to 60% relative humidity."

Also, says Calton, H. E. Butt is testing a new version which is still more efficient. It uses an evaporative cooler and heat exchanger. The air that comes off the desiccant wheel is very hot, but doesn't have any moisture. The system uses the evaporative cooler to cool the hot air, which results indirectly in about 17 tops of air-conditioning.

The system takes the air from outside of the store and passes it over a water sprayer and cools it down to about 75°F. The air then passes over the air-conditioning condenser that does the "sensible" cooling. It's then "exhausted" back into the outside air.

A portion of the returned air passes over the desiccant wheel which removes the moisture. It's an exothermic reaction (a type of chemical reaction where heat is the byproduct). The moisture is removed and the air is heated to about 115°F as a result of the moisture's being removed. The air then passes outside the heat exchanger, which has the cold wet air going through it, cooling it down to 80°F.

That air is passed over a DX (direct expansion) coil for final cooling. The amount of cooling is determined by the thermostat out in the store. ■

MICROS KEEP CONTROL AT HOME SOPHISTICATED SYSTEM TAKES OVER AT RALPHS

As computer hardware and software become more sophisticated and adaptable to specific tasks, retail chains are increasingly

managing and controlling their energy needs internally.

Ralphs, the supermarket division of Federated Department Stores that

Cost per square foot for energy management hardware and software

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
Less than \$0.10	17	20	30	10	13	23	7
\$0.10-\$0.14	6	3	3	—	—	3	23
\$0.15-\$0.25	17	20	13	13	27	17	10
\$0.26-\$0.50	17	23	3	23	23	20	7
\$0.51-\$0.75	5	3	7	—	13	3	3
\$0.76-\$1.00	6	3	3	20	—	3	7
\$1.01-\$2.00	4	—	7	10	7	—	—
\$2.00 +	6	—	7	10	7	3	10
Don't have energy management equipment	18	20	20	13	10	27	23
Contract to outside service/handled by mail	1	—	3	—	—	—	—
Individual store handles	2	—	3	—	—	—	7
Don't know/no answer	2	7	—	3	—	—	3
(MEAN)	(\$0.53)	(\$0.26)	(\$0.54)	(\$0.80)	(\$0.56)	(\$0.35)	(\$0.61)

Source: Chain Store Age Executive research

Lifespan for energy management hardware and software

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
4 years or less	7	7	7	7	3	7	10
5 years	11	7	17	10	10	8	13
6-9 years	10	7	7	23	10	7	7
10 years	24	33	23	30	17	30	10
11-14 years	2	—	7	—	3	—	—
15 years	7	13	3	3	13	—	7
More than 15 years	5	3	3	3	17	3	—
Lifetime/permanent	6	3	3	3	13	7	3
As needed/required	3	—	3	7	—	7	—
Just recently installed	2	3	3	3	3	—	—
Don't know/no answer	6	3	3	—	3	3	23
Don't have energy management hardware/software	17	20	20	10	7	27	23
Handled by outside supplier or mail	1	—	—	—	—	—	3
(MEAN-years)	(9.4)	(10.0)	(8.8)	(8.7)	(12.1)	(8.6)	(7.5)

Source: Chain Store Age Executive research

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RETAIL CENSUS

operates more than 125 stores in southern California, is looking at a sophisticated control system for its refrigeration and HVAC that utilizes a microprocessor, according to Douglas Smith, vp-engineering and construction. This system has the capability of measuring case and product temperatures.

Going along with the use of electronic controls instead of electro-mechanical controls is Landover, Md.-based Giant Food, according to David N. Freedman, senior vp-corporate facilities.

The electro-mechanicals have controls that are "sloppy," he explains, but they are reliable. "We've traded reliability for precision."

Donald Mechlin, director of in-store engineering at Strawbridge & Clothier, Philadelphia, says that a new form of energy management controls called DDC (direct digital control) is replacing the widely-used pneumatic control.

This latter system has compressed air signals at each thermostat that, in turn, trigger or send out signals for changes.

The advantage of DDC is that it doesn't require maintenance. The person in charge can change the temperature points by sending out signals from the central computer.

Many chains, however, still use third parties to help evaluate energy. General Energy Technologies (GET) began offering its own Energy Conservation Analysis System (ECAS) after 10 years of doing nearly 2,000 energy audits for more than 500 companies, says David Farrell, president.

In the various GET systems, data and information is stored, accessed and reported in segments and elements most likely to be understood and acted upon by the users. The programs can all be run on any fully compatible IBM—PC, XT or AT.

GET computerized the techniques, the products and the logic that went into making its recommendations to its clients. The engineers made a data base for all these products and now they have a software program that does a comprehensive analysis for all energy applications.

The retailers can put into their microcomputers the program offered by GET. It breaks down the energy costs by item, such as lighting or HVAC. At any particular time, the chain can pull a report and know how much it is spending on energy or how much it is saving. The program costs \$995. ■

RETAILERS THROW BACKHAUL SYSTEMS IN THE TRASH CHAINS TAKE SEVERAL DIFFERENT APPROACHES TO SOLID WASTE DISPOSAL

Most retailers agree that handling solid waste can be a problem. However, there's little consensus among them as to what the actual solutions should be.

For example, consider the question of backhauling. While some companies have found this to be the best answer for how to handle paper waste, other retailers report being far from pleased with the results.

Fred Meyer is one of the retail

companies that have found backhauling doesn't work in its case.

Gary Wheeler, service division vp and corporate building supply maintenance manager, points out that "When you backhaul, you must be prepared to bale. That wasn't something we wanted to continue doing."

Yet, the company has 97 outlets that generate plenty of paper. That's why it has installed compactors with 30- to 40-cubic-foot bins in each

store. Commercial haulers take the bins to recycling facilities.

Similarly, Giant Eagle supermarkets tried instituting a backhauling program as an alternative to "piling up the corrugated and having it removed when it got too cumbersome," reports Richard Deane, director of maintenance for the company's Aetos subsidiary. Instead, he explains, backhauling proved more labor-intensive than had originally been anticipated because of the "extra" manpower required to load and unload the various conveyances. In addition, storage areas often became cramped waiting for pickups to be made. As a result, Giant Eagle has abandoned backhauling and instead now collects scrap cardboard at each store.

Meanwhile, in the area of wet waste management, retailers continue to disagree over the merits of using self-contained trash compactors in lieu of open bins.

At Giant Eagle, Deane says, company policy dictates that only the former be in evidence. Consequently any garbage that cannot be recycled is placed in 42-cubic-yard receptacles that are inseparable from the compressors themselves. With the boxes still intact, the compactors are collected by rubbish companies and taken to nearby landfills for dumping.

"Self-contained units are neater than open ones because you don't pull your mechanism apart until you get to the landfill, where spills and smells don't matter."

However, taking the opposite stand is a Midwestern supermarket group spokesman, who reports that his company had a "negative" experience with self-contained compressors leased for a test run in late 1985.

"We had always taken the trash from our compressors and put it in receptacles without lids, but we heard about the newer models and wanted to try them out. We put them in two branches, yet disliked the results."

That's because the bins "were usually returned from the landfill with garbage sticking to the side. The open bins sometimes present the same problem, but they are easier to clean when they are detached from the compressor. That may not be the typical case, but it was sufficient to prove that self-contained machines were not for us."

Cost per square foot for solid waste management

	Total %	Discount %	Supermarket %	Home Center %
Less than \$0.10	24	30	10	33
\$0.10-\$0.14	4	7	3	3
\$0.15-\$0.25	15	23	17	7
\$0.26-\$0.50	14	13	20	10
\$0.51-\$0.75	6	—	10	7
\$0.76-\$1.00	6	3	7	7
\$1.01-\$2.00	2	3	3	—
\$2.00 +	2	3	3	—
Don't have solid waste management equipment	10	3	13	13
Contract to outside service/handled by mail	9	10	7	10
Individual store handler	1	—	—	3
Don't know/no answer	6	3	7	7
(MEAN)	(\$0.37)	(\$0.34)	(\$0.51)	(\$0.20)

Source: Chain Store Age Executive research

Lifespan for solid waste management

	Total %	Discount %	Supermarket %	Home Center %
5 years	2	—	3	3
6-9 years	11	10	17	7
10 years	22	17	23	27
12 years	1	—	3	—
15 years	17	30	10	10
20 years	9	7	17	3
25 years	1	—	—	3
Lifetime/permanent	3	7	—	3
As needed/required	2	7	—	—
Handled by mail or outside supplier	13	13	10	17
Don't know/no answer	6	7	3	13
Don't have solid waste management systems	10	3	13	13
(MEAN-years)	(12.4)	(13.1)	(12.2)	(11.5)

Source: Chain Store Age Executive research

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WAL-MART, THE LIMITED AIM AT TOP RUNG

SEARS IS STILL KING OF THE HILL, BUT K MART IS GAINING ON PERENNIAL LEADER

Watch out Sears, Roebuck, K mart and Safeway! Here comes Wal-Mart, The Limited and a number of other general merchandise, discount and specialty chains barreling up the ladder of success in the annual Exec 100 list of top United States retailers.

Sears, which was No. 1 five years ago with sales of \$16.87 billion, increased its retail volume by 57.4% over the years to remain at the top of the heap with retail sales of \$26.55 billion. K mart, which was third behind Sears and Safeway in the 1981 standings, is currently in second place and is narrowing the gap between itself and the leader. From 1981 to 1986, K mart increased its sales volume by 57.8% to \$22.42 bil-

lion. In fiscal 1985, the difference in volume between Sears and K mart was \$5.41 billion. Last year, the difference narrowed to \$4.13 billion.

But hell-bent for election is Wal-Mart, which increased its sales by 414% over the five years to race from No. 31 with volume of \$1.64 billion to No. 10 with fiscal 1986 sales of \$8.45 billion. The Limited, which was No. 179 five years ago, increased its sales eightfold from \$265.3 million to \$2.39 billion, placing it in the No. 35 spot on the list. Wal-Mart increased its vol-

ume internally by starting other divisions, including Sam's Wholesale Warehouse, while The Limited combined internal growth with acquisitions, such as Victoria's Secret and Lerner Shops, to increase its volume.

More important, Wal-Mart's return on equity in fiscal 1986 was a healthy 28.4%, and The Limited's ROE was 43%, compared with 14% for the nine chains that preceded Wal-Mart. For the first time, the 1986 Exec 100 list includes price/earnings ratios, one of the methods by which Wall Street evaluates the earnings performances of retailers against competitors and against publicly-held companies in general. Based on the most recent four quarters

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Chains	1985 Sales (millions)	1984 Sales (millions)	1985 Earnings (millions)	1984 Earnings (millions)	1985 Earnings as % of sales	1984 Earnings as % of sales	Return on equity	P/E ratio	Existing units 1985	Units to be added 1986
1. Sears, Roebuck*	\$26,582	\$26,506	\$766.0	\$905.0	2.8	3.4	11.5	14	1,185	117
2. K mart	22,429	21,086	221.2	499.1	1.0	2.4	14.6	23	3,848	254
3. Safeway	19,681	19,642	231.3	185.0	1.2	0.9	14.9	13	2,360	90
4. Kroger	17,124	15,923	180.8	156.6	1.0	1.0	15.5	14	2,882	141
5. American Stores	13,886	12,119	154.5	185.5	1.1	1.5	17.9	16	1,493	38
6. J. C. Penney*	12,634	12,372	386.0	407.0	2.8	3.0	10.4	15	1,693	45
7. Federated Dept. Stores	9,978	9,672	286.6	329.3	2.9	3.4	11.1	15	604	30
8. Lucky	9,382	9,237	86.5	94.6	0.9	1.0	13.6	19	1,465	N/A
9. Dayton Hudson	8,763	8,009	283.6	259.3	3.2	3.2	16.3	19	1,206	118
10. Wal-Mart	8,451	6,401	327.5	270.8	3.9	4.2	28.4	41	882	133
11. Southern*	8,065	7,707	259.0*	269.0*	3.2	3.5	16.1	21	7,519	N/A
12. Winn-Dixie*	7,774	7,302	107.9	115.9	1.4	1.6	17.2	18	1,262	N/A
13. A&P	6,815	5,878	88.3	215.8	1.3	3.7	14.1	12	1,045	N/A
14. F. W. Woolworth	5,958	5,737	177.0	141.0	2.9	2.5	7.3	16	5,822	650
15. Montgomery Ward	5,388	6,495	(298.0)*	68.0*	—	1.0	N/A	—	315	N/A
16. Supermarkets General	5,123	4,347	63.7	52.4	1.2	1.2	20.1	18	327	31
17. Albertson's	5,088	4,736	85.1	79.7	1.7	1.7	17.6	17	444	23-25
18. May Dept. Stores	5,028	4,596	235.4	214.1	4.7	4.7	18.0	15	2,074	361
19. Army/Air Force Exchange	4,918	4,881	171.0	236.0	3.5	4.8	N/A	—	5,263	N/A
20. Melville	4,775	4,262	210.8	190.4	4.4	4.5	22.1	18	5,574	336
21. ADC	4,385	4,107	119.7	120.7	2.7	2.9	11.8	23	436	28
22. R. H. Macy*	4,388	4,065	189.3	221.8	4.3	5.4	15.1	16	96	4
23. Allied Stores	4,135	3,970	159.3	140.7	3.9	3.5	15.0	14	665	27
24. Zayre	4,036	3,191	94.6	78.0	2.4	2.4	19.0	26	987	117
25. Carter Hawley Hale	3,970	3,724	48.0	89.7	1.2	2.4	13.4	33	284	38
26. Stop & Shop	3,688	3,247	30.3	54.8	0.8	1.7	7.6	28	415	16-18
27. Publix*	3,448	3,206	71.8	75.5	2.0	2.4	16.0	N/A	267	34
28. Walgreen	3,162	2,745	94.2	85.4	3.0	3.1	21.0	23	1,095	120
29. Tandy	2,841	2,775	189.1	282.0	6.7	10.0	18.4	15	9,117	N/A
30. Grand Union	2,800	2,500	N/A	N/A	N/A	N/A	N/A	N/A	375	N/A
31. Service Merchandise	2,526	1,657	10.7	44.6	0.4	2.6	6.3	39	326	N/A
32. Jack Eckerd*	2,509	2,213	(8.3)	85.4	—	3.8	(1.3)	—	1,688	N/A
33. Von's	2,508	2,433	N/A	N/A	N/A	N/A	N/A	N/A	180	N/A
34. Revco	2,386	2,228	36.9	93.4	1.6	4.2	8.6	38	1,896	173
35. The Limited	2,367	1,343	145.3	92.5	6.1	6.9	43.0	49	2,353	N/A
36. Giant Food	2,247	2,139	57.0	45.2	2.5	2.1	22.8	16	137	11
37. Best Products	2,236	2,253	2.2	13.6	1.0	0.6	0.5	0	257	0
38. Baha's*	2,176	2,039	165.0*	181.0*	7.5	8.9	N/A	N/A	176	5
39. Circle K	2,111	1,682	39.8	33.4	1.9	2.0	18.5	19	N/A	N/A
40. Lowe's	2,073	1,689	59.7	61.4	2.9	3.5	15.0	22	284	N/A
41. W. R. Grace*	2,067	1,919	N/A	N/A	N/A	N/A	N/A	26	695	N/A
42. Toys "R" Us	1,976	1,702	119.7	111.4	6.1	6.5	19.1	40	273	85
43. Mercantile Stores	1,888	1,707	102.4	84.8	5.4	5.0	16.1	16	80	1
44. Food Lion	1,866	1,470	47.5	37.3	2.6	2.5	29.1	14	317	N/A
45. Price*	1,834	1,141	46.0	28.6	2.5	2.5	34.9	24	21	3-5
46. Wickes*	1,849	1,648	73.0*	30.0*	3.9	1.8	11.6	53	439	N/A
47. Waldbaum's	1,764	1,712	17.1	13.0	1.0	0.8	12.5	10	137	5
48. Super Value	1,756	1,576	56.9*	39.0*	3.2	2.5	18.9	22	141	6
49. Sherwin Williams*	1,684	1,473	70.9*	55.9*	4.4	3.8	N/A	17	2,070	147
50. Dillard	1,661	1,277	66.9	49.6	4.2	3.9	20.3	18	101	11

*Retail only. **Excludes gasoline sales. †P/E ratios are based on primary per share earnings as reported by the companies for the most recent four quarters. Extraordinary items generally are excluded. ‡Retail operating earnings. §Fiscal year ended in summer or fall of 1985. ¶Price of Public's common stock is determined by Melbourne Shopping Centers, an associated company based upon appraisals prepared by independent appraisers. () Loss N/A Not Available

Sources: Chain data and Chain Store Age Executive estimates



COVER STORY

Chain	1985 Sales (millions)	1984 Sales (millions)	1985 Earnings (millions)	1984 Earnings (millions)	1985 Earnings as % of sales	1984 Earnings as % of sales	Return on equity	P/E ratio	Existing units 1985	Units to be added 1986
51. Fred Meyer	\$1,584	\$1,449	N/A	N/A	N/A	N/A	N/A	N/A	93	N/A
52. Rite Aid	1,584	1,360	\$ 62.5	\$ 69.9	4.0	5.1	16.6	22	1,486	N/A
53. Ames	1,513	822	40.4	28.5	2.7	3.5	32.4	28	450	21
54. Long's	1,481	1,376	37.7	40.1	2.6	2.9	13.7	20	208	15
55. Thrifty	1,465	1,299	31.9	27.9	2.3	2.1	19.4	23	888	N/A
56. Payless Cashways	1,363	1,175	38.1	37.1	2.7	3.2	14.8	22	169	12
57. U.S. Shoe	1,315	1,143	84.8*	52.0*	6.4	4.5	N/A	20	2,047	180
58. Nordstrom	1,302	959	50.1	40.7	3.8	4.2	16.9	17	44	3
59. Cullum	1,172	1,228	17.2	12.6	1.5	1.0	18.4	12	112	14
60. Petrie	1,141	951	77.9	54.6	6.7	5.7	19.3	18	1,367	110
61. American Can*	1,156	995	100.0*	72.0*	8.7	7.2	N/A	12	462	N/A
62. Zale	1,197	1,054	(61.1)	36.8	—	3.7	(13.9)	—	1,341	40
63. Weis	1,017	958	60.1	55.3	5.9	5.7	17.4	20	122	4
64. Ross's	1,000	927	20.3	25.9	2.0	2.5	13.3	22	204	N/A
65. National Convenience†	928	819	15.5	18.5	1.6	2.3	17.8	33	1,130	N/A
66. Bruno's	887	716	24.5	18.8	2.8	2.6	27.0	30	85	10
67. Big Bear	828	747	15.0	10.1	1.8	1.4	25.4	9	91	N/A
68. Edson Bros.	808	786	27.0	32.9	3.3	4.2	12.6	18	2,183	39
69. Sator Brothers†	788	714	2.6	1.1	0.3	0.2	63.6	24	94	3
70. Marsh Supermarkets	719	671	6.4	4.7	0.9	7.0	13.8	23	250	5
71. Carson Pirie Scott*	706	594	26.6*	30.2*	3.8	5.1	N/A	24	322	25
72. Circuit City	706	519	22.0	20.2	3.1	3.8	22.0	24	89	N/A
73. Home Depot	701	433	8.2	14.1	1.2	3.3	9.7	46	50	9
74. Strawbridge & Clothier	657	831	24.1	24.7	3.5	3.9	5.4	N/A	32	1
75. Hannaford Bros.*	683	601	N/A	N/A	N/A	N/A	N/A	23	101	14-16
76. The Gap	647	518	27.7	12.2	4.2	2.4	24.8	38	648	65-70
77. Hartmann*	634	612	28.0*	35.3*	4.4	5.8	13.5	14	467	N/A
78. Osichamps†	631	588	9.6	8.5	1.5	1.4	15.1	12	85	4
79. Sentry Markets*	602	534	5.5	2.8	0.9	0.6	17.4	17	41	2
80. Pueblo International	597	518	6.6	5.1	1.1	1.0	13.5	13	43	4
81. Dollar General	584	481	17.8	20.6	3.1	4.3	17.7	23	1,278	N/A
82. Big V Supermarkets	561	543	5.7	1.9	1.0	0.3	14.0	13	32	3
83. Nash Finch*	542	523	5.2*	6.7*	9.5	12.9	11.6	15	91	4
84. Horse Shoe	541	527	7.2	9.1	1.3	1.7	5.4	20	722	50
85. Ingles†	528	470	7.8	5.4	1.5	1.2	15.9	N/A	99	25
86. Jannaway	523	475	9.3	13.2	1.8	2.8	10.5	22	91	N/A
87. Heck's	523	465	(4.9)	(7.8)	—	166	6	—	165	6
88. Alexander's†	520	517	5.0	4.0	1.0	0.8	7.1	35	15	0
89. Gordon Jewelry†	502	506	8.5	27.3	1.7	5.4	32.9	17	555	40
90. Fisher Foods	495	503	2.3	(5.5)	2.5	—	3.5	19	58	2
91. Hecksinger	479	405	23.1	20.9	4.8	5.2	15.8	25	55	14
92. Shopwell	464	557	(4.3)	(2.0)	—	—	—	—	53	N/A
93. Intarco*	462	545	32.1*	17.3*	6.9	3.2	36.0	18	248	N/A
94. Musford	457	424	5.5	8.2	1.2	1.9	10.0	17	1,195	N/A
95. Fay's	455	367	2.8	8.7	0.6	2.4	4.6	53	139	24
96. Sontly's†	453	425*	17.5	18.1	3.9	4.2	11.6	16	116	12
97. Foodrama	441	450	2.9	0.2	0.7	0.0	12.4	10	27	N/A
98. C. R. Anthony	417	416	9.9	7.7	2.4	1.9	12.7	16	272	6
99. Family Dollar	410	341	24.0	20.9	5.8	6.1	27.1	27	920	180
100. Victory Markets	394	361	3.6	2.5	0.9	0.7	12.4	13	82	N/A

*Retail only †P/E ratios are based on primary per share earnings as reported by the companies for the most recent four quarters. Extraordinary items generally are excluded.
N/A Not available () Loss Fiscal year ended in summer or fall of 1985 *Owned by Godfrey Co. *Retail operating earnings

Sources: Chain data and Chain Store Age Executive estimates

of earnings, Wal-Mart's P/E ratio was 41 at presstime and The Limited's was 40. P/Es of most of the other chains on the list ranged between 15 and 20.

The 1986 Exec 100 is pared down from previous years when it included all chains turning in sales volumes of \$100 million or more. It is the only published list covering all categories of retailing: mass merchandise, department, discount, variety, supermarket, drug, specialty and home centers.

In streamlining its list, *Chain Store Age Executive* for the first time restrict-

ed most of the chains to publicly-held companies. A couple of exceptions have been made for privately-owned chains that volunteered their sales volumes.

From 1981 to 1986, the ranks of the Exec 100 retailers thinned considerably, more because of mergers and acquisitions and leveraged buyouts (LBOs) than for failures.

Thus, Family Dollar Stores, the 100th chain on the 1986 list, posted sales volume of \$410 million its last fiscal year, compared with \$500 million

registered by Giant Eagle, the 100th chain in the 1981 survey.

In fact, with a couple of exceptions, the leaders have all diversified into other areas, especially specialty retailing. This includes Sears, as well as K mart, American Stores, J. C. Penney, Federated Department Stores, Lucky Stores, Dayton Hudson, Wal-Mart and F. W. Woolworth.

Two exceptions are supermarket chains, Safeway and Kroger, which continue to zero in on the food business for growth potential. ■

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Chain Store Age **EXECUTIVE**

with Shopping Center Age
The newsmagazine for retail management



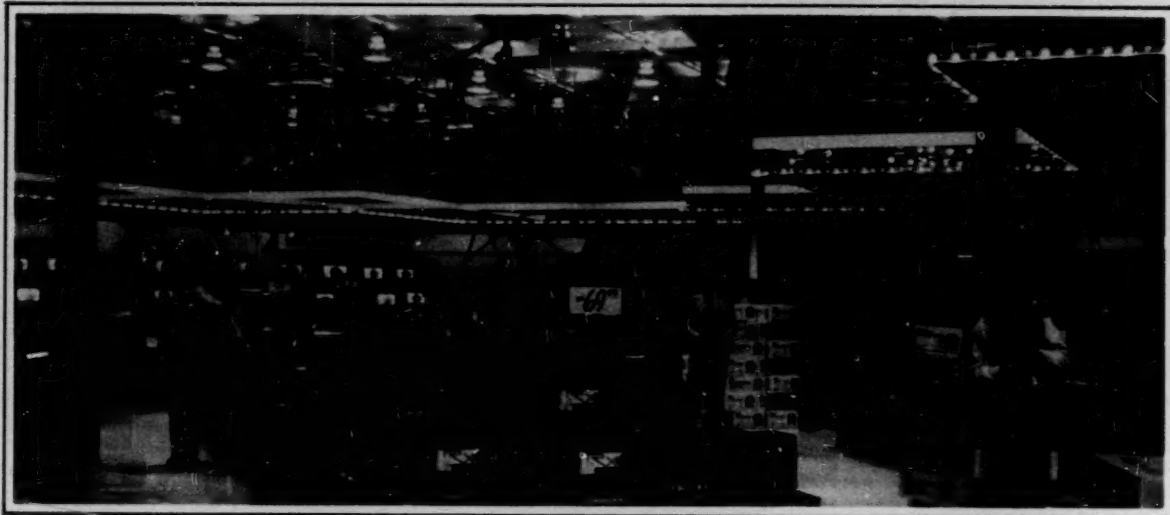
**"Free
enterprise
should produce
for the poor
as well as
the rich."** p. 45

James Rouse

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EX 162

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SUPERSTORES PLUG INTO CE POWER

Best Buy, the Minneapolis, Minn.-based consumer electronics powerhouse, is racking up sales per square foot of \$1,096. These would be the envy of any retailer. Yet, in the world of consumer electronics retailers, Best Buy's success is far from unique. Such companies represent the newest form of power retailing. 28



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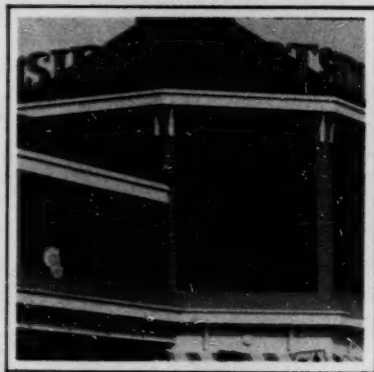
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SHOPPING CENTER AGE



FESTIVAL CENTER PROFITS GO TO IMPROVE HOUSING

James Rouse is utilizing his shopping center expertise to fund the projects of his Enterprise Foundation; Plus, throughout the industry, developers are coming up with new center concepts. These and other topics are explored in this *Shopping Center Age* special section. 35

ADG ACQUISITION TURNS MAY INTO SUPER POWER COUP BY DAVID FARRELL SHOWS HE'S A FINANCIAL EXECUTIVE ON THE MOVE

It was quite evident in the early stages of David C. Farrell's career at the May Co. that he was a man determined to go places in the retail world.

After joining May in 1956, he soon established a reputation as a workaholic—coming in early, leaving late and working on weekends.

By 1969, he had worked his way up to being president of the Kaufmann's division in Pittsburgh and a vp of the parent corporation. He became president of May in 1975, ceo in 1979 and chairman in 1985.

His friends say that he is ambitious and not content with the fact that May had earnings of \$235.4 million, or \$5.38 a share, on sales of \$5.1 billion in the fiscal year ended Feb. 1. These figures look good when compared with other retail chains whose earnings and sales vacillated sharply during the early 1980s when May's rose steadily year after year. Still, Farrell wanted a bigger company. And that's exactly what he has after successfully executing the \$2.5 billion acquisition of Associated Dry Goods.

However, Farrell's quest actually began a few years ago when he called

Thomas M. Macioce, chairman and ceo of competing Allied Stores, and requested a meeting. He suggested a merger of the two large chains. But nothing developed. Reportedly, Macioce asked who would be chairman and Farrell said he, Farrell, would. This meant that Macioce would have a lesser position, and he wasn't about to give up being the boss. Insiders say that the two personalities would have clashed early and often.

Farrell, 53, changed his target and began holding discussions with Joseph H. Johnson, chairman and ceo of ADG. ADG numbers among its divisions prestigious Lord & Taylor, department stores J. W. Robinson and L. S. Ayres, the Caldor discount store operation, and Loehmann's.

When nothing tangible resulted from these conversations, Farrell's next move was to send Johnson a letter containing a formal bid for the company—and copies also went out to the press.

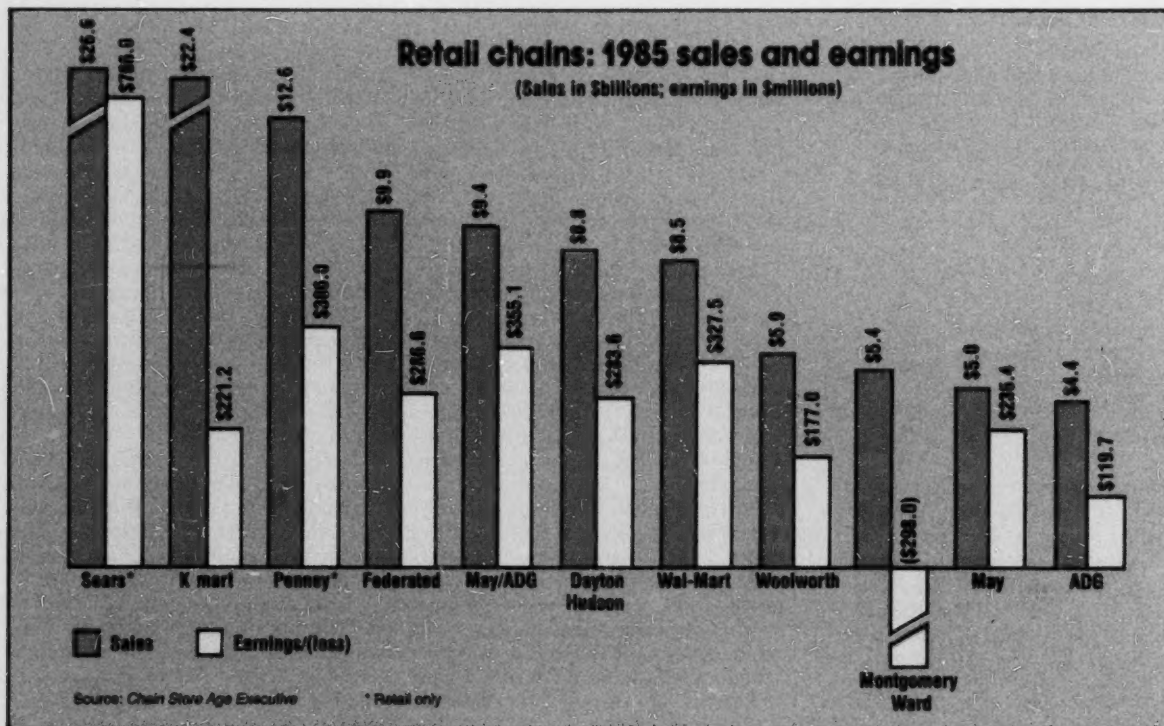
ADG waged a brief battle in July, mainly bickering about the amount of the offer. By mid-month, though, a definite ceasefire had been called and ADG—which had earnings of \$119.7

million, or \$3 a share, on sales of \$4.4 billion in the fiscal year ended Feb. 1—capitulated.

The merger was approved by the boards of both companies. It will give ADG shareholders 0.86 of a share of May's stock for each share they own, compared with the 0.75 of a share in the original offer. At the time of the approval, May's stock was trading for \$73.38 on the New York Stock Exchange, putting the value of the deal at \$63.10 a share, or about \$2.5 billion in total.

The merger is expected to be completed some time this month. Shareholders of both companies must approve the merger, and the Federal Trade Commission is reviewing possible antitrust action. General consensus is that the FTC won't hinder the transaction.

Stuart Robbins, a retail industry analyst with Donaldson, Lufkin & Jenrette, terms the transaction a "super deal." He explains: "The combination will be a powerhouse in the general merchandising field. It will be just about as big as Federated and will grow twice as fast." He projects a 15% annual earnings growth in the



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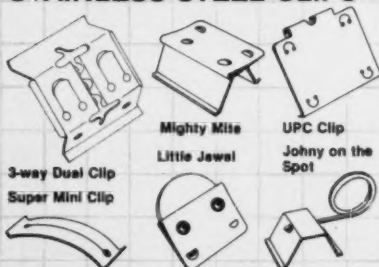
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FINANCE

next five years with moderate dilution of May stock as a result of new shares to be issued to ADG shareholders. "Only Dayton Hudson and Allied could rival their earnings growth," he says. His preliminary estimates for the combined company's earnings are \$5.30 to \$5.40 a share in 1986, compared with \$6.10 to \$6.15 a May share prior to the merger.

Not everyone is as enthusiastic. Carl F. Campbell, an analyst who fol-

Saturdays.

Farrell thrives on work, say his friends. He's not known for his genial personality, but he does have a reputation as an astute businessman who wants to build May into a top-notch company.

Johnson, on the other hand, is known for delegating authority to his executives and giving them the support they need. He is also not known as a nudge.

Most important in Farrell's new company is the fact that May will become a major buying power. Where May ranked ninth behind Sears, Roebuck, K mart, J. C. Penney, Federated Department Stores, Dayton Hudson, Wal-Mart, F. W. Woolworth and Montgomery Ward in sales last year, it will now leapfrog into a virtual tie with Federated in fourth place with a combined volume of about \$10 billion.

Farrell says that the 63-year-old Johnson will join the May board after the merger. Other than this, Johnson's future role at presstime hadn't been determined. Reports are that he will retire, possibly with a golden parachute.

Johnson says that he is "delighted that the negotiations are behind us, and the two companies can proceed together toward building one of the great retailing companies in the world." Farrell says he "looks forward to working with Mr. Johnson and the Associated organization."

Joseph Brooks, chairman of ADG's Lord & Taylor, and four other ADG executives also will join May's board, which currently consists of 15 members. One of the more valuable assets that Farrell is acquiring is Brooks, who is generally credited with building Lord & Taylor from a sleepy little high-priced chain into a highly successful, exciting national chain.

During the blush of the first announcement that May wanted to acquire ADG, reports circulated that Brooks was trying to put together a leveraged buyout of Lord & Taylor, but nothing materialized.

Brooks is a highly visible merchant prince, often photographed at society and fund raising affairs. There is an air of anxiety as to how he and the usually publicity-shy Farrell will get along together.

Summing up the general thoughts of Wall Street and professional retail observers is Jeffrey Edelman, first vp of Dean, Witter, Reynolds: "The successful takeover represents a major coup for Farrell and May," he says. ■



Farrell: "It is our intention to maintain both store names with separate organizations [in Pittsburgh]. Venture and Caldor will continue to operate separately."

lows May for R. Rowland in St. Louis, says: "For ADG shareholders it's a fine deal, for May management it's a good deal, but this is not really a good deal for May stockholders. They're buying a company that's not really in top shape and they'll have to spend lots more to put it in top shape."

May has already made it quite plain that it doesn't plan to merge any of the department stores or discount chains, nor does it plan to discontinue any.

Farrell says that in Pittsburgh, May will continue operation of independent Kaufmann's and ADG's Joseph Horne, which competes directly. "It is our intention to maintain both store names with separate organizations," says Farrell. He also notes that Venture and Caldor, two upscale discounters, will continue to operate separately.

But apparently ADG headquarters executives are going to have to adjust their lifestyles, according to insiders at May. Farrell has established a corporate culture of long working hours in the St. Louis headquarters. His work days—and those of his staff—usually begin around 7 a.m. and last through 8:30 p.m., and most people are expected to be at their desks on

year and didn't even notify the customers.

For the most part, Grocery Express prices are competitive with San Francisco supermarkets. Typically, if the delivery charge and tip are included, an average order runs about 8% over buying the same goods in a supermarket. "We have a lot more labor than a supermarket . . . the labor offsets savings in overhead you get by not having a store."

Currently, Garvey employs 40 people, though many of them are part-time, resulting in an equivalent full-time staff of 30. Ten are order takers, 15 work in the warehouse, five handle administration and 10 work as drivers delivering orders in the six vans that are either owned or leased by the company.

For someone who has no one to pattern her company on, Garvey has so far succeeded quite well on her own. For the year she's been in charge, sales volume has increased by about 35% while the customer base has risen by 1,000. The company is currently packing 90 to 100 orders per day with an average price tag of \$70.

Garvey attributes the increases primarily to heavy direct mail advertising. The company also encourages word of mouth advertising by offering incentives such as \$5 off to both the new customer who tries it and the person who made the referral.

Although for now she is still looking for increases, Garvey notes that "if anything, we have to pay attention to restricting the growth so it doesn't grow too fast. It is a service and if you try to add too many [new customers] too quickly, your service side goes down."

She says she will be comfortable if she can generate growth of about 25% per year through a combination of adding customers and increasing frequency of sales. "Some people do depend on us 100%," she reports, "some people 50% . . . Most of the growth will come by attracting new households."

In the meantime Garvey has added some new products to the existing selection of 3,500-plus sku's. Grocery Express will now deliver some hot entrees through a deal worked out with San Francisco restaurants. And, if the customer is in the mood to take in a movie with dinner, then—thanks to a deal with an area video rental store—Grocery Express will deliver a videocassette, too.

—H.K.

MIS: SMALL STORES THINK BIG

AUTOMATION MARKET TO HIT \$10.9 BILLION BY 1988

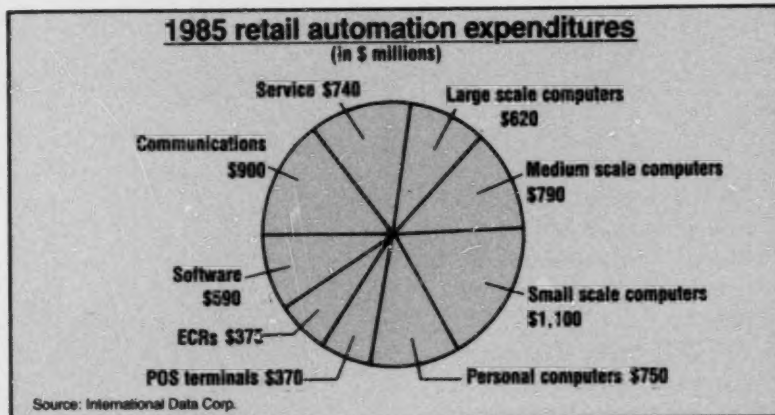
The clerk at the sales desk of a small Lexington Avenue boutique in New York City calls up a menu on the terminal screen, taps a few computer keys and informs the customer that, "Yes, we have it in a size eight. Wait and I'll get it for you." Moments later, a printer adjacent to the terminal is humming away, churning out a detailed sales slip.

This is no national chain. Far from it—the owner has one other store; like this one, it is a maximum of 1,500 sq. ft. Yet, the sophistication level of its management information system at the point of sale is enough to satisfy

applications, according to the report. The drop in computer prices and the proliferation of personal computers have made automation accessible to these retailers, who are showing the largest percentage increases in expenditures.

Given that virtually all of the nation's large retailers already have mainframe-based POS systems—with some of these retailers already on their second and third generation systems—their expenditures will consist mostly of service, add-ons and upgrades, according to the report.

These larger retailers are also in-



any customer or store manager.

This store typifies a trend within the arena of small and medium-sized retailers—that is, they are beginning to follow in the MIS footsteps of the nation's largest chains.

Fueled in part by the expenditures of such operations, retail automation will grow to a \$10.9 billion market by 1988, up nearly 100% from 1984's \$5.5 billion.

This statistic, contained in a report recently released by the International Data Corp. (IDC), Framingham, Mass., reflects an 18.8% compound annual growth rate in the retail automation market. The report, *Automation in the Retail Industry*, outlines the unprecedented investment in new systems and notes that automation expenditures as a percentage of retail industry revenues is on the rise.

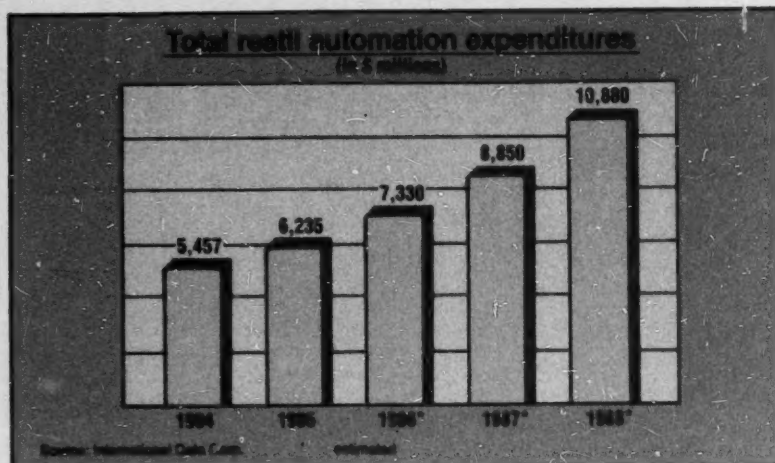
One source of these expenditures is the small and medium-sized retailers that are investing in small computer systems to handle retail-specific and general purpose business

vesting in microcomputers, super microcomputers and PCs at the store level to give individual store managers more timely and appropriate data and to offload the corporate mainframe, says IDC.

While corporate-wide applications such as general ledger will still be run on the large central mainframe, many retail-specific applications are being moved to smaller, in-store processors.

In fact, the IDC surveyed respondents asking about the most common applications running on in-store processors. In terms of retail-specific applications, price look-up, inventory management and sales analysis led the pack. Payroll, remittance processing and time and attendance processing ranked high on the list of general business applications.

Lowest on the retail-specific list were mail order processing, mail list management and advertising analysis. The counterparts on the general business list were demographic anal-



ysis, in-house publishing and computer-automated design.

Although the report does not break out expenditures by retail segment, it does project the growth of various categories of retail automation equipment and services.

Specifically, in the computer categories, the personal computer market will show the greatest compound annual growth, 21.7%, from 1984 through 1988, says the report. (The growth is reflected in dollar volume, not in industry shipments.)

The small computer market follows with 16.6%; medium-sized computers at 10% and large mainframes at 6.6%.

"Reflected in those projections is the notion that smaller stores don't need large mainframes, they need smaller computers," reasons Peter Cohen, senior consultant, strategic business practices at IDC. "They [small retailers] are automating more quickly, therefore those markets will grow more quickly."

Compound annual growth for the period 1984 through 1988 for computer related categories is as follows: electronic cash registers, 36.8%; software, 32.5%; services (all maintenance including third party and vendor-supplied), 22.1%; communications, 17.2%, and POS systems, 12.1%.

While the report does not break down the dollar volume being spent by category, it does give a relative analysis of POS systems shipments. As with other computer systems, vendors are shipping an increasing number of POS systems to specialty stores. Shipments to discount stores are increasing moderately, most probably because discounters have reached the point where they are in-

vesting in second generation systems, many with scanning capabilities, says Cohen.

Shipments to both supermarkets and department stores appear to be leveling off.

One noticeable change in the overall retail automation market that will result from higher small store expenditures is the growth of companies selling packaged retail-specific application software. The market for horizontal applications (such as employee scheduling) and specialized applications (such as bookstore manage-

ment) is expected to increase rapidly.

Additionally, value-added resellers (VAR) are taking a stronger position as a distribution arm. Large automation equipment manufacturers are expected to turn to VARs as a cost-effective alternative to a direct sales force.

"The VAR channel will grow in importance in this market. There are companies other than [the majors] that can offer very comprehensive and, in fact, often better systems than the small retailers might get from the vendors themselves," claims Cohen. "They may offer ones that are tailored more specifically to their [retailers'] particular requirements."

IDC, which conducts market research for the computer industry, compiled this report based on surveys of 200 retailers, representing several thousands of stores. Those retailers represented the gamut of the industry from single store operators (49) to chains owning more than 1,000 stores (2). Two others operate between 500 and 999 stores, and 12 respondents realize more than \$500 million in revenues.

Additionally, notes Cohen, several vendors were contacted concerning their shipments in order to confirm statistics obtained from the retailers. ■

IF THE CHECK WASN'T IN THE MAIL MACY, PALAIS ROYAL DEBT COLLECTORS CONNECT

It used to take an R. H. Macy telephone debt collector all day long to talk to 30 consumers about overdue bills and get them to promise to pay up. Today, that same collector can reach about 30 delinquent debtors an hour.

At Palais Royal, a 27-store family apparel chain in Houston, telephone collectors get about 50 such promises an hour per collector, compared with 30 per day before September 1985.

The big difference—the time and employee saver—is a little black box called the TBS Telecollection System, produced by TBS International, Richardson, Tex.

Prior to installing the system in February 1985, Macy's telephone collectors wasted a good deal of their time dialing a number, listening to the phone ring and either getting no answer, a busy signal or finding the wrong person answering the phone. The debtor wasn't home.

According to Ed Epstein, vp-credit operations for R. H. Macy (headquartered in Cranford, N.J.), the TBS system has "... revolutionized the collection business. It permits our operators to do multiple calls. I've got five people doing the work of 35 collectors."

At Palais Royal, Charles Ross, vp and general credit manager, says that prior to installing the TBS system a year ago, it would take each operator 100 phone calls to get about 30 people to promise to pay up. "Today, the collectors spend 99% of their time in conversations with customers, rather than wasting time."

Briefly, the TBS 850 Telecollection System dials between 500 and 600 calls per hour, routing only answered calls to the telephone collectors. When the computer connects the call, all the proper accounting data is sent to the TBS workstation. Information can be updated by the collector

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Store Age EXECUTIVE

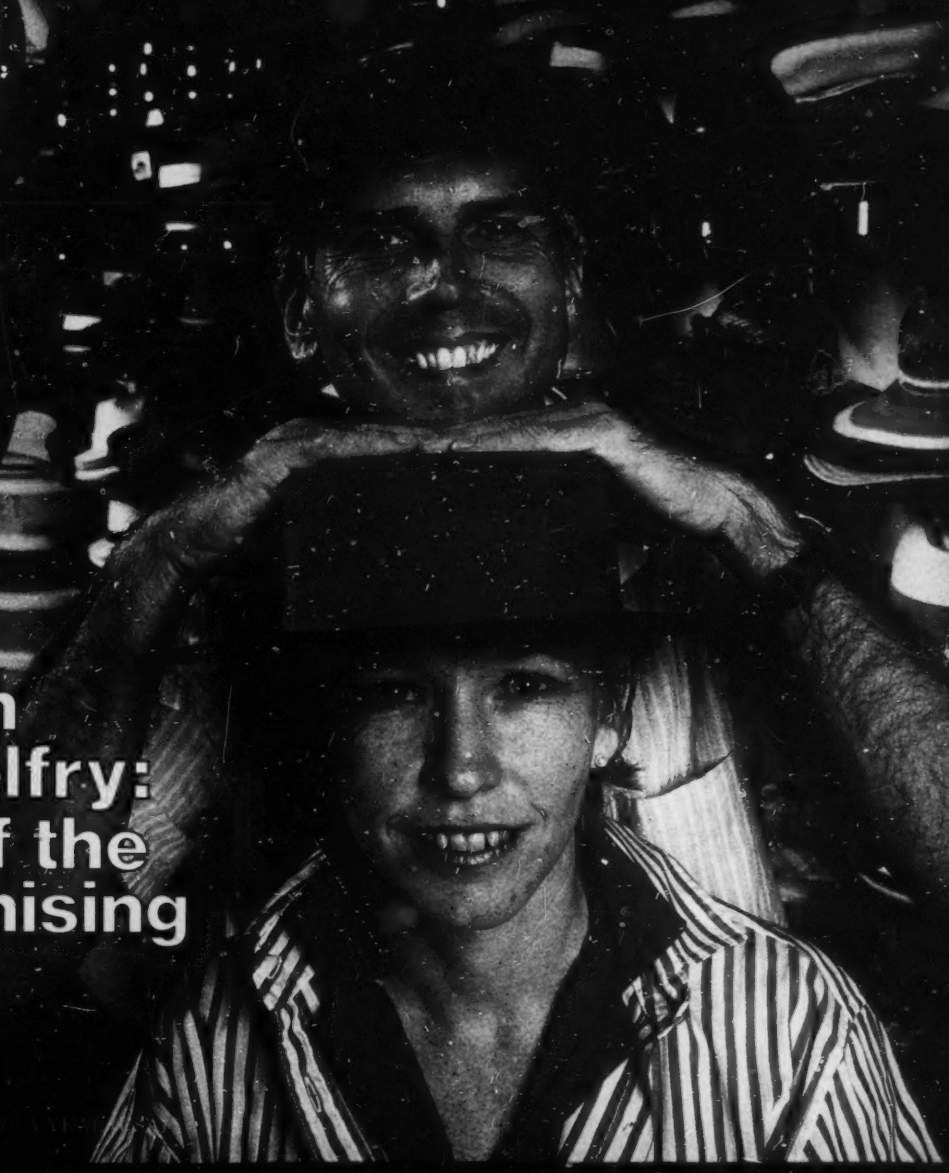
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Hats in the Belfry: Part of the Franchising Boom

Courtney Graton
and Margie Bryce



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HATS IN THE BELFRY: PART OF THE FRANCHISING BOOM

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FRANCHISING BOOM MAKES HEADWAY

HATS IN THE BELFRY: PART OF A FAST-GROWING INDUSTRY

"In some ways it was as big a commitment to franchise as to go into the business in the first place," says Courtney Graton, one of the two founders of Hats in the Belfry.

However, he and his wife (and co-founder) Margie Bryce, decided to take the plunge because "We pretty well believe in the concept of owner-operated stores," says Bryce.

The couple has joined numerous other executives who are realizing the wisdom of franchising their businesses, creating a continuing boom in the franchise industry.

In 1986 alone, the number of franchised businesses is expected to grow by 6%, on top of the 10% growth that came in 1985. It is estimated that goods and services are now being sold in more than 478,000 franchised-outlets.

According to William Cherkasky, executive director of the International Franchise Association, as a result of this boom, \$576 billion in sales of goods or services will be generated by franchised companies in 1986. He equates this to 34% of all retail sales, and anticipates that this number will swell to 40% by the end of the decade; and to 50% by the end of the century.

As a sign of how fast the industry is growing, the 1986 figure is already well above the \$506.9 billion in franchised sales generated in 1985. However, the numbers may be somewhat misleading, since \$302.5 billion of these sales came from automotive and truck dealers, \$102.5 billion by gasoline stations, \$53.8 billion by restaurants, and \$6.3 billion by automotive products outlets.

Still, the \$12.4 billion generated by franchised convenience store operations and the \$29.4 billion generated by "other retailing" is certainly nothing to scoff at. (All figures are U.S. Department of Commerce statistics found in *Franchising in the Economy*, a publication available from the U.S. Government Printing Office.)

"Retailing is a tremendous opportunity for franchisors, and franchising

represents a tremendous opportunity for retailers," says Donald Boroian, president of Francorp, a leading Chicago-based franchise consulting firm.

"It is just too costly to find a store location, build the store, stock it with merchandise, find the inspirational management it needs, train the sales help, supervise the store, absorb the losses and also have the local knowledge to be competitive," he says. "Chains today are constrained in

ket research, but rather it came about purely by chance. "We were walking down the street, and Margie saw a cap and said, 'What about hats?' She had said the same thing about shoes and about other products, but there was just something about hats," recalls Graton. "I had a feeling that hats were coming back—don't laugh, but I looked at commercials and I saw a lot of the models were wearing hats—it looked like a definite trend."

The basic concept behind Hats in the Belfry "is to have everything imaginable in headwear, including fashion headwear, but satisfying a broad range of customers. The customer mix is evenly divided between males and females."

Graton and Bryce opened their first Hats in the Belfry store in 1978 in their hometown of Annapolis, Md. However, they really came into the limelight when the Rouse Co., searching out "innovative" tenants for its Harborplace project, stumbled upon the store and persuaded the couple to open a second unit in Baltimore's festival center. A third unit followed in downtown Georgetown Park in nearby Washington, D.C.

"As we grew from one to three units, we realized that there were diminishing returns," recalls Bryce. "We thought each store would be more profitable if the person who ran it owned it, and so far we have proven to be exactly right."

Since the Georgetown store was sold to a franchisee, "for two-and-a-half months sales have already been considerably better because the management is there all the time."

Along with the Georgetown unit, Bryce and Graton have also sold the Harborplace store. But, "We are retaining the Annapolis store as a training and testing facility," says Graton. The first franchised unit opened in 1984; there will be between 13 and 16 stores open by year-end.

Like other retailers who have taken the franchise route, Hats in the Belfry founders have discovered that franchising is a way to reap the benefits of



GRATON AND BRYCE: "WE BELIEVE IN THE CONCEPT"

their growth by these factors. Franchising, though, offers them a great opportunity to expand rapidly."

He adds, "If you look at the franchise companies that are successful you have a little unique business that captured the public."

That's exactly what Graton and Bryce, two ex-Maryland school teachers, hope will happen with the specialty hat stores that they launched almost by accident.

The decision to open a store specializing in headwear wasn't the result of any extensive, expensive mar-

the franchise route, Hats in the Belfry founders have discovered that franchising is a way to reap the benefits of retail expansion without having to deal with day-to-day operational headaches.

For franchisees, it's a way to own their own businesses—and to reduce the risk of failure. "The failure rate is less than 10% for franchises," while according to statistics gathered by the Small Business Administration, "the discontinuance rate for small business is 33% in the first year, 50% in the second and 65% in the third," says Cherkasky.

Retail franchise operations include companies such as: Drug Emporium, Merle Norman, Ace Hardware, MicroAge, Video Updates, Scandia Down, Baby's Room, Little Professor Bookstores, Cooks Corner and Sports Fantasy.

In many ways, retailing is a natural for franchising because of its strong service orientation.

For example, at Bathtique, a group of both company-owned and franchised-bath products and giftware stores, Donald Seipel, president of the Rochester, N.Y.-based firm says, "The advantage for us in franchising is that way we know we have committed people in the stores. That's particularly important to us because our business is very, very service- and customer-oriented." Bathtique has been franchising its stores since 1969 and currently has approximately 60



franchised units, along with 26 company-owned stores.

Service is also an extremely important factor at Hats in the Belfry. "There is no question about the level of service customers expect in our stores. Plus, it's part of our philosophy of selling to provide customers with a great deal of information," Graton explains.

This selling philosophy, coupled with a merchandise inventory numbering approximately 560 hats and caps, translates into average sales per square foot of \$900. One of the franchised units actually achieves sales averaging approximately \$1,400 per square foot.

Becoming a Hats in the Belfry franchisee involves a one-time fee of \$25,000. Then there is a monthly royalty payment required of 8% of gross

monthly sales. On top of this come the start-up expenses, varying greatly depending on the size and the location of the store, and whatever leasehold improvements may be required. These expenses can range anywhere from \$46,000 to \$108,000 and include such components as opening inventory, opening advertising, first month rent and working capital.

As for who is ready to make such an investment, Seipel says, "It used to be that the potential franchisees would often be someone looking for a second income, or a husband and wife interested in working together. But today the person coming to us is definitely more sophisticated. He or she has often worked in the corporate world and senses the nonsense and the craziness and decides that he doesn't need the aggravation any

Getting started: A helping hand

When a retailer decides to franchise his or her operation, there is a major investment in time, energy and money involved.

Some companies try the do-it-yourself approach, turning to legal help only when absolutely necessary. However, others turn to outside franchising consulting firms to help them.

Francorp, headquartered in suburban Chicago, is one of the most well-known of such firms. According to president and founder Donald Boroian, when a retailer approaches him about the possibility of becoming franchised, before he agrees to take on the project, "No. 1, I want to see a profitable prototype and this steps a lot of people. The prototype

should be adaptable to other markets; the way of doing business should be trainable to others. And the operation should have a point of differentiation."

In addition, from a strictly financial point of view, "There should be good accounting controls and the cash requirements to duplicate the operation should be reasonable based on the returns that can be generated."

Most important, "I look for the integrity and commitment of the individuals who own the operation; 90% of the value I place in management—10% in the concept."

He adds, "Many companies come to see us and we suggest that they not expand into franchising

because they lack the management ability to manage the monster they are about to create."

Over the years, Boroian has found that "most of the successful franchisors have a passion for excellence. They want to see their dream come true. They want to see the world covered with their units."

He adds that, "The customer must benefit and the franchisee owner must benefit for the franchisor to be successful. It's our job to convert a successful business into a successful franchise."

For its clients, Francorp makes available help in setting up operational systems, offers professional marketing advice and provides legal services.

more."

Why take the franchise route? "The risks are much greater when you start your own business," says Francorp's Boroian. "Ninety per cent of all new businesses fail; 90% of all franchisees succeed. When someone buys a franchise, he has a safety net—if there's a problem there's someone

to catch you."

He adds, "If someone wants to start a new company in a business that he already knows, then he doesn't really need to become a franchisee. But if someone wants to start a business in which he has no experience, it is better to buy a franchise."

In Boroian's view, the ideal fran-

chisee "is intelligent, hard-working, has the necessary capital, is good with people, and wants to succeed."

At Hats in the Belfry, "it's subtle things we look for" in deciding whether or not to accept a potential franchisee, says Bryce. For example, "We look for something in someone's background that indicates he or she has overcome some difficult time, whether personal- or business-related. Retailing has a lot of ups and downs and someone has to understand that there are good times and bad times in retailing. We want to make sure we have someone who doesn't go to pieces in the bad times—and someone who is not afraid of hard work."

She adds that the most important criterion, however, "is someone's attention to detail—after all, we have over 500 styles of hats. Retailing is a very detail-oriented business."

Once someone becomes a Hats in the Belfry franchisee, the support program includes extensive training, access to a computerized merchandising control system and the placing by Hats in the Belfry of the initial orders and orders for the first couple of months of operation.

In addition, for the newer franchisees, there is a pre-opening assistance program available, complete with a time clock covering the time from when the store is opened until the doors of the store are opened," says Graton. There is also a weekly newsletter.

Most recently, the company has started sending a buyer to visit each store to provide merchandising and selling help, and to let franchisees in on what is happening at the other Hats in the Belfry units.

However, perhaps most significantly, "All of the franchisees come to Annapolis four times a year, three days each time," says Graton. Not only are they able to see all of the samples purchased for the next season by the Hats in the Belfry buyer, but "they also can spend two days with the merchandiser, with the presentation, talking about styles and about trends."

The program for the third day is really up to the franchisees themselves. "They are polled prior to coming here about their problems and about what they would like to learn more about, and then we hire people to speak on those subjects."

The biggest benefit, though, is "the contact that they have with each other. This is really the biggest benefit—the picking of the brains among

Developers put out the welcome mat

The shopping center developers have gone out of their way to get us prime space," says Courtney Graton, one of the founders of Hats in the Belfry, discussing reaction to his franchised specialty hat retail operation.

He adds, "Developers seem to understand the impulse nature of our business and they go out of their way to get us prime space in center court locations. Sometimes, too, that's particularly difficult because of the space configurations—our stores require only between 350 sq. ft. and 600 sq. ft. of space."

Not only is he pleased with the positive regard in which developers appear to hold franchised operations, but he and his partner Margie Bryce have actually had a number of potential franchisees referred to them by members of the developer community.

As Bryce explains, "Quite often a new specialty center, in particular, gets a lot of attention. People will call up the developer and say, 'Hey, I would like to open a store, but I really don't know what to sell or how to go about setting it up.' Sometimes we get franchisees from this." This method works particularly well since "if the landlord has already done some pre-screening, the franchising process works even better."

Donald Boroian, president and founder of Francorp, a leading franchise consulting firm, also observes that, approaching franchising from the other side, "We receive many referrals from shopping center developers of retail operations that they think might be good candidates for franchising." Francorp specializes in helping companies to set up franchising systems.

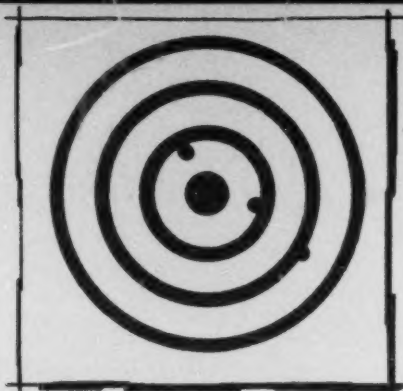
Conversely, Boroian has also

worked with a large number of his clients to help them obtain shopping center locations. "By and large shopping center developers like good franchise operations. That's because they know the parent company will guarantee the lease, that it provides good training, good store design, start-up assistance and ongoing supervision of the store. They know that if the franchisee does not operate the store properly, the franchisee can be terminated by the franchisor. Shopping center developers, for the most part, would rather have a franchise owner in their shopping centers than a mom-and-pop."

As for Hats in the Belfry, Graton says, "We turn down many more locations than we accept, because the location is not quite right. We don't see ourselves as the McDonald's of the hat world—we can't have a shop on every corner of every busy city. We pick our locations really carefully." Two of sites where Hats in the Belfry will open before year-end include the Houston Galleria and Riverchase Galleria, Birmingham, Ala.

Having opened several of its stores in Rouse Co. festival centers, Graton notes that in addition to regional malls, "We will continue to consider festival marketplaces but we are choosing them very carefully. Many just don't offer the right kind of tenant mix for our type of operation to succeed." Street locations are another viable option. "But we are finding that these are the hardest sites to get."

Current plans call for "eight new stores to open a year and we are comfortable with that figure, although we may do as many as 12 to 16," Graton says. "But we won't do 60 a year. Our market is too location-oriented for every suburban mall and street location."



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COVER STORY

the newer and the older franchisees."

What's most notable about the Hats in the Belfry support system is the speed at which it has been built up. However, most retail franchisors have recognized that it's important to provide maximum support for their franchisees in order to make the whole process work.

For example, over the years Bathtique has built up a particularly extensive system. However, "It really boils down to a few key areas," says Seipel. "The most important thing is that we negotiate a location for retailers at a rent which they can pay and still make money. We also have their stores built for them, write their opening orders and guarantee open dating for them. Through the buying system we have developed, the franchisees can also reorder merchandise at lower prices—and Bathtique provides full market coverage through attendance at all of the major bath and giftware shows."

Extensive training on pricing, display techniques, selling techniques and dealing with personnel decisions are part of Bathtique's support program. Plus, "We are the only franchisee that pays one-half the cost of an ad, and we help them save on Visa and MasterCard. Usually the banks charge fees of 5% to 6% when these are used, but we make the franchisees pay only 2.7%."

In essence, when the franchise system works most efficiently, what the franchisee obtains in return for his investment is a well-established retail business that he is able to launch in a new location. What the retail franchisor, such as the Hats in the Belfry team, gets in return (in addition, of course, to the monetary rewards) is the pleasure of being in the retail business without having to shoulder the same kind of daily operational burdens as they did in the days when they actually ran the store.

As Bryce recalls, "A few days ago, one of our franchisees in Michigan called up and reported that he had just made a \$400 sale and we got very excited—we still experience those retail highs, like the excitement of opening a new store, but we don't have to hear too much about those personal problems—when So-and-So doesn't show up for work, for instance."

"We still get all the neat things about retailing," she points out, as Graton adds, "We live vicariously off our franchisees."

—Jacquelyn Bivins

OIL BELT RETAILERS SWEAT OUT DRY SPELL

MANY MANAGE TO KEEP MARKET SHARE BY STEPPING UP CUSTOMER SERVICES

Deborah Bilboa, a salesclerk in the cookware department of Sanger Harris in the Crossroads Shopping Center in Oklahoma City, answers "yes" to a visitor's question about whether or not business has been soft in Oklahoma City.

The positive answer is directly a result of unemployment worsening because of plummeting oil prices and sagging agriculture sales.

For instance, Bilboa points out that her brother works for financially-troubled Halliburton, a Dallas-based oil field services company, which has laid off 80% of its employees. Her brother still has a job, but he works seven-and-one, meaning seven weeks of employment and then one week of furlough.

Three Oklahoma banks recently have bitten the dust: Citizens National Bank & Trust, First National Bank of Oklahoma and Penn Square Bank.

This is oil country, where retailers as well as most other businesses are struggling to keep sales and profits at least flat with those of a year earlier.

But conditions aren't as dire as many published articles note. Shopping center developers (*see accompanying story*) point out that there are many retailing opportunities in the area, depending on locations. Military spending is high and other industries are doing fairly well, they say.

The direct root of most of the problems in such Southwest states as Oklahoma, Texas and Louisiana, is the fall in the price of oil to \$9.75 a barrel last spring from \$35 to \$40 a barrel a year earlier.

However, the Southwest is not a disaster area as yet, although it is in

poor straits compared with the rest of the country. The Television Bureau of Advertising reports that in the West South Central area—consisting of Texas, Oklahoma, Louisiana and Arkansas—its members reported

revenue gains from local businesses of only 4% in the second quarter, compared with the same year-earlier period. This is compared with 15% nationally. New England is the strongest area in the country with a 21% gain.

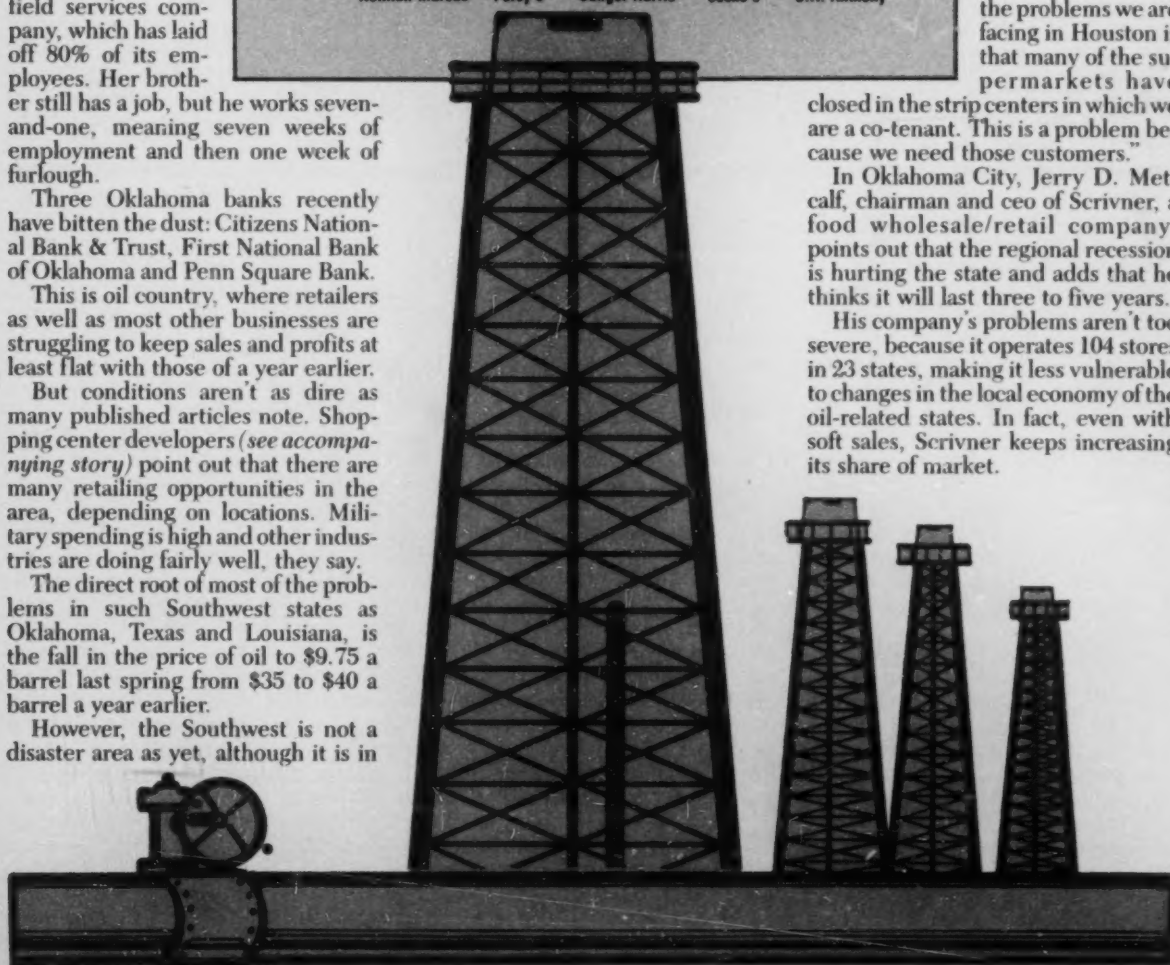
"There's no question that the Houston and southern Louisiana stores are not doing as well as we would like them to do because of the oil problem," says Peter Agostino, senior buyer for Jack Eckerd Drugs, which has a number of stores in those market areas.

He adds, "One of the problems we are facing in Houston is that many of the supermarkets have

closed in the strip centers in which we are a co-tenant. This is a problem because we need those customers."

In Oklahoma City, Jerry D. Metcalf, chairman and ceo of Scrivner, a food wholesale/retail company, points out that the regional recession is hurting the state and adds that he thinks it will last three to five years.

His company's problems aren't too severe, because it operates 104 stores in 23 states, making it less vulnerable to changes in the local economy of the oil-related states. In fact, even with soft sales, Scrivner keeps increasing its share of market.



Developers see growth potential in oil producing states

While not denying that the oil exploration industry and sagging agricultural products have had adverse effects on the economy, a number of shopping center developers (and their tenants) remain optimistic about retail opportunities in Texas, Oklahoma and Louisiana. They note that there are heavy military expenditures plus oil refineries (as contrasted to exploration) and various types of research projects. Both have plans for new projects and expansions, and neither has cut back on its plans for the area.

Specifically, it all depends on specific locations in those three states, say spokesmen for JMB/Federated Realty Associates, Cincinnati, and Herring Marathon Group, Dallas.

In the eight Texas cities in which Herring has centers, "We're finding that military expenditures are very strong," says Cheryl McCue, Herring spokeswoman. The petrochemical industry is not feeling the extreme effects that oil explo-

ration is feeling; convention and tourism is up in San Angelo, Lubbock and Abilene, Killeen, and Baytown.

In Temple, the economy is stable due to research at major medical centers.

Herring Marathon started a 475,000-sq.-ft. project in Shawnee, Okla., in September, and is planning a 1.5 million-sq.-ft. mall in Lewisville, just north of Dallas. Shawnee has little to do with oil except for products used in manufacturing.

Similarly, Stanley Eichelbaum, senior vp-public affairs and marketing for JMB/Federated, says, "We're excited about Oklahoma City. We bought the 26-year-old Penn Square Mall and are expanding it" (*Chain Store Age Executive*, May 1986). JMB/Federated will double the 550,000-sq.-ft. mall to nearly 1.5 million sq. ft. by March 1988.

"It's the right location," explains Eichelbaum. "The neighborhood has great demographics." He

points out that it is located in an affluent area of Oklahoma City and access roads lead to other choice residential areas. The retailer response has been exceptional.

He also observes that the company's Collin Creek Mall in Plano, Tex., has had a great growth pattern over the last four or five years. His company is doubling the size of its North Hills Mall outside of Fort Worth. Tenant sales are excellent considering that the space has been doubled and a theater and a sit-down restaurant have been added.

Acknowledging that there are problems in Houston, Eichelbaum adds, however, "We feel pretty good about West Oaks Mall, which houses Foley's, Saks 5th Avenue, Lord & Taylor and Mervyn's. They're reporting good sales, he says.

"We're ecstatic about the potential for Oklahoma City. Dallas continues to perform fine. In Houston, we've benefited from being in the right trade area."

The situation is somewhat more uncertain for Foley's, a Federated Department Store division headquartered in Houston. Gary Key, operating vp-sales and customer service, notes that in the Houston market last year, sales were flat with a year earlier despite the depressed economy.

The company was also faced with increased competition from chains such as R. H. Macy, Mervyn's and a whole slew of off-pricers. (Despite the competition, Foley's still reports that in the first quarter of the current fiscal year, it increased its share of market in Houston, San Antonio and Austin.)

As an additional sign of the area's economic ills, several retail executives were quick to point to the decision by Mervyn's, the Haywood, Calif.-based chain, to close its regional headquarters and distribution center previously located in a Dallas suburb. However, Valerie Cooke, a spokesman for Mervyn's, says that the closings were entirely unrelated to the economy and were, instead, part of a decision to recentralize management of the chain.

Mervyn's, in fact, continues to increase its investment in the region. Three stores were recently opened in Tulsa, along with three more in Texas where there are now a total of 33 Mervyn's units. The company also has two stores already in operation in Louisiana and plans to open three more there before the end of this year.

All in all, though, statistics for the Southwest aren't encouraging for retailers. Unemployment in Texas has been hovering above the 10% mark, compared with a national average of about 7%. With oil exploration nearly at a halt, Diamond Shamrock, Pennzoil, Tenneco, Standard Oil and hundreds of other companies that rely on the oil companies have laid off workers. Even Placid Oil, the Hunt brothers oil company, was forced to declare bankruptcy. These unemployed oil field workers are packing up and leaving the area in droves, mostly migrating back to the east and north.

According to the Bureau of Labor Statistics, nearly 200,000 high-paying jobs in energy and manufacturing have disappeared since last year.

Oil production, which peaked at 3.5 million barrels a day in 1972, was

down to 2.2 million barrels a day in April. Stripper wells, which produce less than 10 barrels a day, have marginal production and high operating costs. If oil is selling for about \$10 a barrel, it doesn't pay to operate a stripper well. At \$15 a barrel, the operator can make money, so he goes back into production.

New business ventures in Texas have dropped 6% since 1983, compared with, say, a 25% increase in Massachusetts.

In June, bankruptcies in the Dallas area hit a record 902. New jobs that had been anticipated in the computer and semiconductor industries in Austin didn't materialize.

Bob Bullock, Texas state comptroller, estimates that falling oil prices would leave the state's treasury with a \$2.3 billion deficit for the two-year budget which ends Aug. 31, 1987. Despite a number of money saving measures taken by the Legislature during the first of two special sessions in September, Bullock says the Texas economy shows "no significant signs of upturn during this budget period."

R. Randall Onstead Jr., president of the 33-store Randall's Food Market

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THERE IS A DIFFERENCE

FEATURE

which is based in Houston, one of the hardest hit markets, reports that the city is now actively looking for diversified business opportunities. Previously, the economy has been heavily dependent not only on the oil industry, but also on space exploration. Plus, it is the third largest port city in the nation. Now, though, the city government is looking into building up its medical and health research related facilities to provide new employment opportunities.

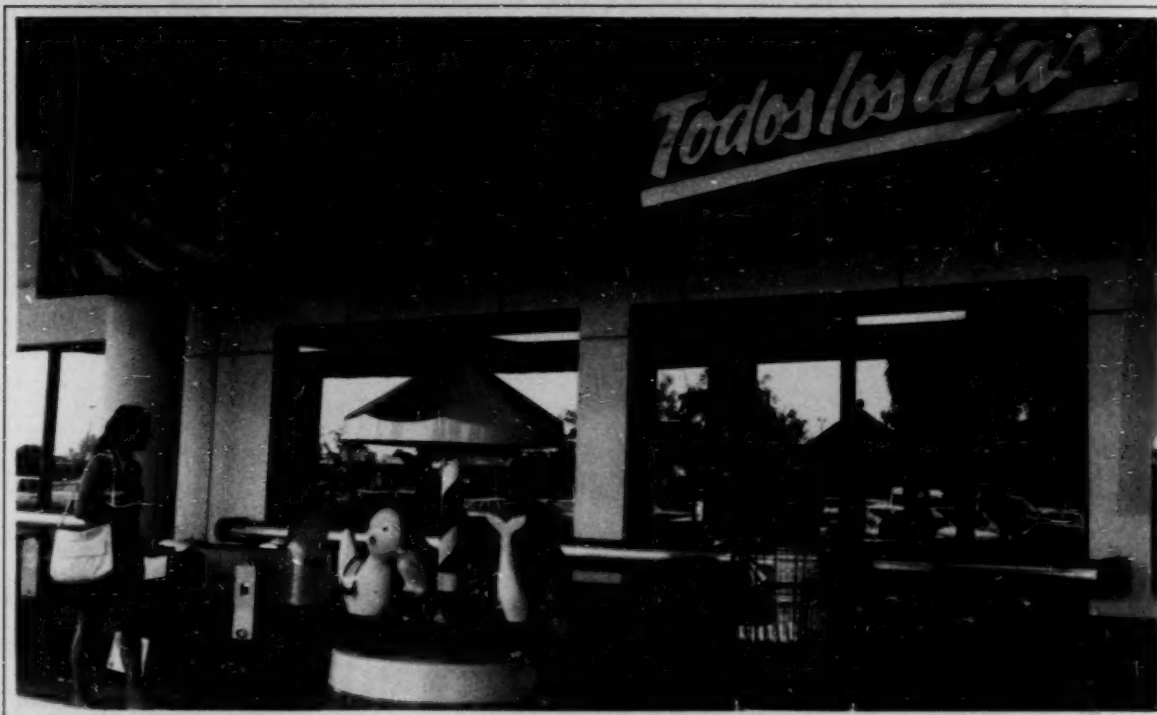
Like many other retailers, Randall's chairman, Robert R. Onstead Sr., is personally involved in the city's attempts to solve its economic problems. He has taken a lead role in the Houston Economic Development Council 1986-87 Campaign Fund Drive for \$6.3 million. "I believe strongly in the future of our city and I want to do everything I can to help Houston get growing again," he says.

Houston isn't the only city that needs to take some recovery measures. Other cities are also having their problems.

In Oklahoma City, Jim Barnes, manager of the Food World supermarket in the Crossroads Shopping Center, notes that his business has been affected adversely by the oil-related recession. He notes two major impacts. First, the shopping area around his store is losing its population as people leave to return to other parts of the country looking for employment. Second, a number of other food stores have opened recently in the neighborhood, exhibiting their faith in the area's eventual return to health.

Meanwhile, many retail chains in the oil area say the way they are surviving or gaining share of market is by getting back to basics—trying to become more customer-oriented. At Foley's, for instance, the chain began soliciting opinions from customers and reacting positively to their suggestions (*Chain Store Age Executive*, September 1986).

In Oklahoma City, C. R. Anthony conducted a series of focus group sessions with its customers and in response to their requests has issued its own credit card, breaking a spell of some 64 years (see story this issue). "A large number of our customers want the convenience of shopping with an Anthonys credit card," says Bob Anthony, chairman, president and ceo. And keeping those customers coming into the stores is really what it's all about. ■



FESTIVE ATMOSPHERE: XTRA SUPER FOODS UNITS FEATURE EATERIES SERVING CUBAN AND NICARAGUAN SNACKS

CHAINS REACH OUT TO HISPANIC CONSUMERS

SPECIAL MERCHANDISE, AMENITIES WOO AMERICA'S 20 MILLION LATINOS

On a warm summer morning, the Salazar family—parents, a grandmother and four children—walks into J. C. Penney's Miami branch seeking special attire for a party they're planning. Once inside, they are greeted by a sales associate who chats with Grandma in her native language, then tells the group where they can find *guyaberas* (men's dressy wedding shirts) and flouncy Guatemalan dresses.

After making the appropriate purchases, they decide to look for shoes, so they consult a prominently displayed English/Spanish store directory. And finally, on their way out, they see a poster reminding them to come to a Hispanic Heritage Festival in which Penney always participates.

No, this is not a scene staged for an idealistic department store commercial, nor is it merely a merchandising executive's fantasy. Rather, it is a very real illustration of how one chain is targeting what some observers call America's most lucrative retail niche—the 20-million-strong, \$70 billion Hispanic customer sector.

What's more, it appears that Penney is not alone in its quest to make loyal customers out of the 10.3 million Mexicans, 2.6 million Puerto Ricans, 1.7 million South and Central Americans and 1.4 million other Latinos currently living in the United States. Actions taken by other retailers include the following:

- Vons Grocery, in response to informal interviews held in its stores over the past two years, has created El Tianguis, a group of supermarkets designed to cater specifically to southern California's 4.5 million Hispanic residents. A 60,000-sq.-ft. flagship will open in Montebello this coming December; two additional units are planned for El Monte and Cudahy by mid-1987.

According to Susan Lawmaster, director of marketing for the new venture, all El Tianguis outlets will feature at least 400 items imported from Mexico. (Lawmaster declined to reveal any other specifics for this story.)

- Nine-unit Xtra Super Foods Centers, a subsidiary of Pueblo International, is tailoring its Miami, Hialeah

and Kendall, Fla., stores to meet the needs of a clientele corporate principals estimate as being about 70% Latin in origin.

Included in its game plan are such amenities as a large selection of prepared Cuban/Nicaraguan edibles, frequent in-store demonstrations depicting how to use Anglo products and a carnival-type shopping atmosphere complete with flags and colorful banners.

- The Burdines department store chain, whose Miami branch attracts a sizeable proportion of first- and second-generation Cubans and South Americans, involves itself heavily in the Hispanic community by sponsoring Latin cultural events.

This year, Miami's Hispanic Heritage festival will be chaired by Jane T. Smiley, Burdines' operating vp-special events and public relations.

Patricia Asip, J. C. Penney's programs manager-Hispanic markets and corporate marketing, says, "The fact that so much more attention is being paid to the Latino customer segment these days is no coincidence.

Some operations may have been remiss in this area in the past, and many still have far to go, but actual demographics are just too astounding for most of us to ignore. They show that there's a huge, strong consumer niche out there."

The statistics support this marketing thrust. Most significantly, Asip observes that figures provided by the

act this emotion by making them feel welcome in our stores."

At Xtra, he reports, part of this task is accomplished by gearing most of the merchandise mix toward individuals of Latin descent "or, in other words, offering foods previously found only in *bodegas* [small neighborhood groceries]."

He notes, "naturally, we stock 20-

'Americanized' items."

Similarly, Asip remarks, J. C. Penney has established Hispanic marketing teams in Chicago, Denver, San Antonio, Miami, Phoenix/Tucson, San Francisco, Los Angeles and San Diego. Part of their job is to ensure that units located in these areas feature the attire Latinos favor.

"Whether they are Cuban, Mexican, Puerto Rican or South/Central American, we want our customers to believe that their patronage means something to us," she asserts.

"We don't want them to walk in and say, 'Oh, Penney's doesn't sell what we need, so we aren't valued here.' It's worth it to us to import brightly-colored garments, Mexican wedding shirts, special *Quincienra* dresses girls wear at their 15th birthday celebrations and more—and from Hispanic vendors," says Asip. "It shows that we are as committed as possible to this market."

Chains are also beefing up Latinos' "comfort level" by compensating for the fact that they may not be completely familiar with the English language or American brands, Buoni claims. Toward this end, he observes, a majority of Xtra's promotional flyers, banners and in-store signs are printed in English and Spanish; demonstrations of Anglo products are usually conducted in both tongues.

For the same reason, Penney has prepared English/Spanish signboards, as well as dual-language instructions for completing charge card applications and ordering from its catalogs. In several locations, sales associates wear name tags stating that they are bilingual. And, at Burdines, Hispanics have access to a bilingual personal shopper.

"The more Spanish an establishment catering to Latin Americans can incorporate into its sales plan, the better," comments Rosanna Stoll, a consultant for Chicago-based Metrick Marketing Group. "However, the approach should always involve some use of English, too, or Hispanic shoppers will start feeling that they are being condescended to."

Yet another key to successfully targeting Latino audiences lies in acknowledging the great pride they take in their heritage, adds Bronna Lipton, who heads up Hispanic marketing services for Burson-Marsteller, a New York City-based advertising agency. To substantiate her point, Lipton cites findings culled in a study conducted by research group Yankelovich, Skelly & White for the



MERCHANDISE WITH A LATIN FLAVOR: XTRA TARGETS HISPANIC SHOPPERS

U.S. Bureau of the Census indicate that "Hispanic households contain more potential customers than do Anglo homes—an average of 3.7 family members vs. 2.3." While the United States population as a whole grew by only 3.3% between 1980 and 1985, the Latin American sector increased at a rate of 16% and should reach 27 million by the year 2000.

Further, she points out, Latin Americans now possess more spending power than ever before. According to a spokesman for the U.S. Department of Commerce, their average annual household income ranges between \$18,833 and \$22,000, up from \$16,228 in 1982, "and shows no sign of leveling off."

To tap into this market, sources say, chains are "picking up" on a number of attitudes and shopping beliefs they have found to be of extreme importance to Hispanic consumers, then finding ways to turn them into positive customer "lures." For instance, says Xtra operations director Richard Buoni, "in the past, Hispanics somehow got the idea that American merchants were cheating them. As a result, we, as retailers, are currently taking special pains to counter-

Top eight Hispanic markets by household	
City	Number of households
Los Angeles	835,100
New York City	677,200
San Francisco	211,400
San Antonio, Tex.	208,800
Miami	183,000
Chicago	179,900
Laredo, Tex.	28,600
San Angelo, Tex.	7,800

Source: Mexican American Grocers Association

lb. bags of rice and beans, plus other things our Hispanic shoppers buy in bulk at our Miami, Kendall and Hialeah units."

However, he adds, "We've found that it takes more than that to induce these people to come in on a consistent basis. It involves having a wide variety of the products they use daily, such as 20-ft. spreads of plantains, peppers and mangoes; thinner cuts of meat; Spanish cheeses and the like. It also means allocating most of our delicatessen space to Cuban pastries, rice/bean dishes and other prepared foods to take home, rather than more

SIN Spanish television network.

"When asked, 50% of Hispanics surveyed said they considered themselves Hispanic first, American second," she contends. "A full 87% claimed to be demanding more respect for their culture than they used to. Obviously merchants have nothing to lose and much to gain by plugging into this ethnocentric attitude."

Not surprisingly, a number of operations are already demonstrating their support for Hispanic culture by participating in community cultural events, say Asip and Smiley. For example, Penney recently provided swimsuits and production outfits for the Miss Hispanidad beauty pageant held in Miami; participated as a sponsor in Phoenix's *Fiestas Patrias* (Mexican Independence Day) celebration and held a party in Los Angeles to commemorate the Mexican holiday *Cinco de Mayo*.

The company also plays an integral part in planning Miami's annual Hispanic Heritage Festival, a week-long event featuring Spanish art and dance expositions, as well as a street fair.

Median Hispanic family income by region

Region	Income
Southeast	\$24,100
Northwest	22,000
Pacific	21,300
Central	20,600
Southwest	19,500
Northeast	14,400

Source: Strategy Research Corp.

Burdines, too, is involving itself in the Miami festival—not only through Smiley's chairmanship, but by sponsoring an appearance there by the Spanish dance troupe *Ballet Folklorico*.

"We have always involved ourselves in the 'doings' of the communities in which our stores are located, but where Hispanics are concerned, it's proven to be of utmost, utmost importance," Smiley asserts. "It is the simplest way of reaching out to people without seeming as if we are trying to jam merchandise down their throats."

Finally, Buoni says, chains are increasing their chances of attracting a loyal Latin American clientele by accommodating their tendency to shop in large groups.

"In the Hispanic world, unlike almost any other, a shopping expedition is an excuse for a family outing," he insists. "Consequently, Latinos only shop at stores into which they feel comfortable bringing their children. They especially like festive atmospheres."

As a result, all Xtra units now have eateries where customers can enjoy Cuban and Nicaraguan snacks and coffees, as well as such standard fare as hot dogs and sandwiches. Each branch is also decorated with bright banners, flags and wall murals.

"Hispanics tell us that for them, this is like going to a fair," concludes Tony Calvieri, manager of Xtra's Miami store. "If this is what makes shopping acceptable to big families, it's acceptable to us."

Hopefully, the Salazars feel the same way.

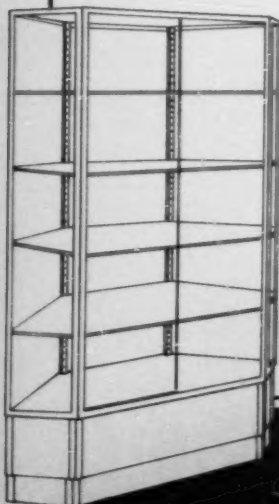
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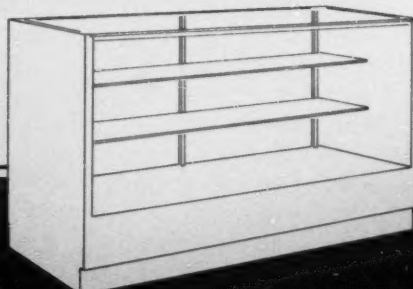
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